

SUBCOMMITTEE No. 3

HEALTH, HUMAN SERVICES, LABOR and VETERANS AFFAIRS

| | |
|------------------------------------------|-----|
| Health and Human Services Overview | 3-1 |
|------------------------------------------|-----|

Health

| | |
|---------------------------------------------------|------|
| California Health and Human Services Agency | 3-5 |
| Emergency Medical Services Authority | 3-7 |
| California Children and Families Commission | 3-8 |
| Department of Health Services | 3-9 |
| California Medical Assistance Commission | 3-19 |
| Managed Risk Medical Insurance Board | 3-20 |
| Department of Developmental Services | 3-24 |
| Department of Mental Health | 3-31 |

Human Services

| | |
|-----------------------------------------------------------|------|
| Office of Statewide Health Planning and Development | 3-36 |
| Department of Aging | 3-37 |
| Department of Alcohol and Drug Programs | 3-37 |
| Department of Community Services and Development | 3-39 |
| Department of Rehabilitation | 3-40 |
| Department of Child Support Services | 3-41 |
| Department of Social Services | 3-44 |

Labor

| | |
|------------------------------------------------------------|------|
| Secretary for Labor and Workforce Development Agency | 3-59 |
| Employment Development Department | 3-60 |
| California Workforce Investment Board | 3-62 |
| Department of Industrial Relations | 3-62 |

Veterans Affairs

| | |
|--------------------------------------|------|
| Department of Veterans Affairs | 3-64 |
|--------------------------------------|------|

HEALTH & HUMAN SERVICES OVERVIEW

Summary of Governor's Proposed 2006-07 Budget

Services provided through Medi-Cal; Healthy Families; CalWORKS; In-Home Supportive Services; Regional Centers; and other programs touch the lives of millions of Californians. Health and Human Services programs provide access to short- and longer-term services and supports that promote the health, well-being, and independent living of our state's most vulnerable children, adults, seniors, and families.

The budget for Health and Human Services proposes a total of \$73.1 billion (\$28.5 billion General Fund) in combined state and federal funds, including expenditures for about 33,674 state employees. This reflects a net increase of \$1.8 million (\$1.2 billion General Fund) over the revised current year which is an increase of about 3 percent.

Key proposals include the following:

- **Looming Federal Budget Cuts.** On or around February 1, 2006, the federal government is expected to enact the federal fiscal year 2006 budget. This budget, called the Deficit Reduction Act of 2005, would result in federal funding reductions for many programs, including CalWORKs, Child Support, Foster Care, Child Welfare, and SSI/SSP. The total annual General Fund impact could approach \$470 million, although the full impact would not be felt until 2008 or 2009.
- **Delay Supplemental Security Income/State Supplementary Payment (SSI/SSP) Federal Cost of Living Adjustment (COLA).** The Governor proposes to delay the 2007 federal SSI/SSP COLA an additional fifteen months, from April 2007 to July 2008. This would result in General Fund savings of \$54 million in 2006-07 and \$215 million in 2007-08. The 2005-06 Budget suspended the state SSI/SSP COLA for 2006 and 2007, and delayed the federal COLA for three months in each of those years. The maximum SSI/SSP grant in 2007 would remain at the April 2006 level, which is \$836 for individuals and \$1,472 for a couple.
- **Extend Deeming Period for Cash Assistance Program for Immigrants (CAPI).** The CAPI program provides income assistance to low-income aged, blind, and disabled legal immigrants who do not qualify for SSI/SSP. The Governor proposes to extend the deeming period from ten to fifteen years for immigrants who entered the country on or after August 22, 1996. During the deeming period, the income and resources of the person sponsoring the non-citizen will be taken into account when determining benefit eligibility. This five year extension results in General Fund savings of \$12.5 million in 2006-07 and \$40 million in 2007-08.
- **Reduce Funding to Counties for CalWORKs Services and Child Care.** The Governor proposes to reduce funding for local CalWORKs programs by a total of \$292 million in current and budget year. Although the budget does not propose any changes to eligibility, work requirements, or grants for CalWORKs clients, the reductions to county programs for CalWORKs employment services, eligibility determination, and child care may affect the state's work participation rate.

- **Reduction to County Eligibility Processing for the Medi-Cal Program.** Counties are responsible for processing all Medi-Cal Program enrollment applications, including those for children as well as seniors and the disabled. The Governor eliminates \$42.4 million (\$21.2 million General Fund) in 2006-07 for County Eligibility Administration which has been historically provided to counties to fully fund the salaries and overhead costs of the Medi-Cal Program eligibility workers.
- **Maintain \$120 million for Proposition 36.** Proposition 36, the Substance Abuse and Crime Prevention Act of 2000 (SACPA) established sentencing guidelines that allow first or second time nonviolent adult drug offenders to receive drug treatment rather than prison time. To fund these treatment services, SACPA also appropriated \$120 million annually from 2001-02 through 2005-06. The Governor proposes to maintain \$120 million General Fund in 2006-07 for SACPA, but also proposes programmatic changes similar to the drug court model, including jail sanctions, drug testing, and judicial monitoring.
- **Increase Child Welfare Services and Foster Care Funding.** The Governor proposes an additional \$18.3 million General Fund for various child welfare, foster care, and adoptions programs, including \$7.7 million to improve Foster Care Child Relationships (AB 408/AB 1412), \$2.5 million for Kinship Support Services, \$1.0 million for Transitional Housing for Foster Youth (AB 1119), and \$7.1 million for Improving Adoptions Outcomes.
- **Reductions to Adult Day Health Care Program.** A series of proposals are included to reduce and restructure the Adult Day Health Care (ADHC) Program for a total funding reduction of \$19.8 million (\$9.9 million General Fund) in 2006-07 and up to \$128.4 million (total funds) annually. In addition, the moratorium on the certification of new centers to provide ADHC services is continued by the Administration for savings of \$12.1 million (\$6 million General Fund).
- **State Hospitals and the Federal Civil Rights of Institutionalized Persons Act (CRIPA).** Due to significant concerns expressed by the federal government with the operation of the State Hospitals, substantial changes are being proposed by the Administration. The budget proposes an increase of \$43.5 million (\$37.8 million General Fund) and 432 additional positions to address the requirements of CRIPA and to implement a recovery-oriented treatment system.
- **Simplification of the Medi-Cal Redetermination Form.** The Administration is in the process of changing the Medi-Cal redetermination form to make it easier for Medi-Cal enrollees to complete and therefore maintain their enrollment. An increase of \$42.1 million (\$21.1 million General Fund) is provided to reflect an increased caseload of 27,672 enrollees, or an additional 2 percent per month retention rate, due to these form changes. An increase of \$3.3 million (\$1.7 million General Fund) has also been provided for County Medi-Cal Administration processing for these applications.
- **Increasing Medi-Cal and Healthy Families Program Enrollment for Children via Outreach Activities.** The budget includes several strategies to improve the enrollment of uninsured, eligible children into the Medi-Cal and Healthy Families Program. The Medi-Cal Program includes expenditures of \$27.4 million (\$10.5 million General Fund) for this purpose.

- **Expands the Use of Certified Application Assistance Fees to Increase HFP Enrollment.** Historically, the HFP utilized a comprehensive outreach and enrollment process, which included the use of Certified Application Assistants (CAA), public relations, and a media campaign. The budget provides the following adjustments for the CCA outreach approach:
 - Provides \$11.8 million (total funds) to continue the CAA fees which represents an increase of \$5.4 million over the revised current-year.
 - Proposes \$2.5 million (\$2 million General Fund) to create a new incentive program for CAA's.
 - Provides \$26.7 million (total funds) to support anticipated new HFP caseload which is attributed to the CAA efforts. This additional funding would provide enrollment to 33,496 new children.
- **Implementation of Hospital Financing Waiver and SB 1100 (Perata and Ducheny), Statutes of 2005.** The budget includes an additional \$246 million (federal funds) in 2005-06 and \$570.7 million (federal funds) in 2006-07 to reflect implementation of the Hospital Financing Waiver. Due to implementation of the Waiver, state General Fund savings of at least \$149 million are expected for 2006-07 as well.

However, it should be noted that the federal government has not yet approved California's methodology for determining how a "certified public expenditure" (CPE) is calculated. Until this approval is obtained, Public Hospitals, including University of California hospitals, cannot receive supplemental federal fund payments for Disproportionate Share Hospital (DSH) expenditures or Safety Net Care Pool funds.

- **Licensing and Certification Division Staff Increase.** The budget includes an increase of \$17.6 million (total funds) to provide for 141 new state positions to complete required state licensing and federal certification functions, including complaint investigations of nursing homes. These activities would be funded with a newly proposed Licensing and Certification Fund. Trailer bill language to restructure certain licensing and certification requirements, as well as to increase fees paid by healthcare facilities, will be forthcoming from the Administration.
- **Agnews Developmental Center Closure Continuation.** The Administration has provided the Legislature with an update on their plan for the closure of Agnews Developmental Center. This document states that achieving the closure date of June 30, 2007 is contingent upon the Administration's ability to implement three key components—increased community housing, new service models, and the use of state employees in the community. The budget proposes a net increase of \$23.5 million (total funds) over the revised current year for the closure of Agnews.
- **Pandemic Influenza Initiative.** The budget proposes a total increase of \$34.3 million (General Fund) for preparedness strategies related to a pandemic influenza outbreak. No federal funds for this purpose are included in the budget at this time.

- **Increase Funding for Community Care Licensing.** The Governor proposes \$6.7 million (\$6 million General Fund) and 80 new positions to complete required licensing workload and increase visits to facilities. Additional staffing is requested primarily to address a backlog of required visits, as well as to increase the number of random sample licensing visits from 10 percent to 20 percent annually. Other administrative and statutory reforms are proposed to improve the efficiency of the licensing program and increase client protections.

Each of these proposals is discussed in more detail below.

HEALTH

0530 California Health and Human Services Agency

Background. The California Health and Human Services Agency (CHHS Agency) administers the state's health, social services, rehabilitative and child support programs. The purview of the CHHS Agency includes: (1) the departments of Aging, Alcohol and Drugs, Child Support Services, Community Services and Development, Developmental Services, Health Services, Mental Health, Rehabilitation, and Social Services; (2) the Office of Health Insurance Portability & Accountability Act; (3) the Office of System Integration; (4) the Office of Statewide Health Planning and Development; (5) the Managed Risk Medical Insurance Board; (6) the Emergency Medical Services Authority; (7) Long Term Care Council; and (8) Health Care Quality Improvement and Cost Containment Commission.

The Office of Health Insurance Portability & Accountability Act (HIPAA) was created in 2001 and has statewide responsibility for implementation of the federal HIPAA. The office was established within the CHHS Agency to direct and monitor this process.

The Office of Systems Integration (OSI) within the CHHS Agency manages five major projects for the Department of Social Services (DSS) and one project for the Employment Development Department (EDD). Funding for OSI is supported entirely by reimbursements from the DSS and EDD budgets. Effective July 1, 2005, the HHSDC Systems Management component was shifted to the Health and Human Services Agency, Office of System Integration.

Summary of Funding. The budget proposes total expenditures of \$229.1 million (\$5 million General Fund). Of this total amount, (1) \$3.1 million and 25 positions are proposed for the Secretary's Office, (2) \$3.7 million and eleven positions are for the Office of HIPAA Implementation, and (3) \$222.3 million and 165 positions are for the Office of System Integration. Through the Budget Act of 2004, the Secretary for the CHHS Agency received 14 new positions and an augmentation of \$1.8 million (General Fund), or an increase of over 100 percent over the Budget Act of 2003. This adjustment is reflected in the current-year base.

| Summary of Expenditures | | | | |
|---------------------------------------|-----------|-----------|-----------|----------|
| (dollars in thousands) | 2005-06 | 2006-07 | \$ Change | % Change |
| Secretary for Health & Human Services | \$3,486 | \$3,133 | -\$353 | -10.1 |
| Office of HIPAA | \$3,600 | \$3,680 | \$80 | 2.2 |
| Office of System Integration | \$212,443 | \$222,274 | \$9,831 | 4.6 |
| Funding Source | | | | |
| General Fund | \$4,913 | \$4,986 | \$73 | 1.5 |
| Managed Care Fund | \$364 | -- | -\$364 | - |
| Reimbursements | \$1,809 | \$1,827 | \$18 | 0.1 |
| Office of Systems Integration Fund | \$212,443 | \$222,274 | \$9,831 | 4.6 |
| Total, Health & Human Services Agency | \$219,529 | \$229,087 | \$9,558 | 4.4 |

Highlights of the Office of Systems Integration within the CHHS Agency

- **Child Welfare Services/Case Management System (CWS/CMS) Go Forward Plan.** CWS/CMS provides database, case management, and reporting functions for the Child Welfare System. The budget provides \$110.4 million (\$55 million General Fund) for maintenance of the existing system and other required activities needed to maintain federal matching funds for this system. These activities, known as the “Go Forward” plan, include a technical architectural alternative analysis, migration of the application hosting to the Department of Technology Services (DTS) from a private vendor location, and other activities to determine if or how CWS/CMS should be changed to meet federal standards. Budget year funding represents a decrease of \$9.4 million (\$4.8 million General Fund), primarily to reflect reduced application hosting costs. The budget also requests the establishment of 1.0 additional position in OSI for CWS/CMS. OSI currently has 66.5 positions for CWS/CMS.
- **Case Management, Information and Payrolling System (CMIPS) II Contract Procurement.** The existing CMIPS provides client case management and provider payrolling functions for the In-Home Supportive Services (IHSS) program. The budget includes \$25.6 million (\$12.8 million General Fund) for contract planning, procurement, and implementation activities. Although the 2005-06 Budget Act included \$13.2 million (\$6.6 million General Fund) in anticipation of a contract award and implementation in 2005-06, the OSI now indicates that the contract is not anticipated to be awarded until November 2006. This results in a current year reduction of \$10 million (\$5 million General Fund).
- **Statewide Automated Welfare System (SAWS) Maintenance and Implementation Activities.** SAWS consists of five automation systems and a project management office that support eligibility determination and caseload tracking functions for Medi-Cal, California Work Opportunity and Responsibility to Kids (CalWORKs), Food Stamps, Foster Care, Refugee Resettlement, County Medical Services, and county General Assistance programs. The budget provides \$228.6 million (\$82.9 million General Fund) for SAWS, a reduction of \$28.5 million (\$9.4 million General Fund) compared to the current year, primarily due to completion of CalWIN conversion activities in 2006-07. The budget year funding would maintain the four fully implemented SAWS systems, complete county conversion activities for CalWIN, begin migration planning activities to move counties from ISAWS to C-IV, and begin development of a LEADER replacement system request for proposal. The budget also proposes to permanently establish 1.0 expiring limited-term OSI position for SAWS.
- **Electronic Benefit Transfer (EBT) System.** The EBT system provides cash and food benefits to CalWORKs and Food Stamp clients via debit card technology and retailer point-of-sale terminals. The budget requests \$50.8 million (\$10.2 million General Fund) for ongoing system maintenance and contract procurement activities.
- **Statewide Fingerprint Imaging System (SFIS).** SFIS records fingerprints and photo images of CalWORKs and Food Stamp applicants to prevent duplicate aid payments. The budget requests \$7.8 million General Fund to continue to maintain SFIS.

4120 Emergency Medical Services Authority

Background. The overall responsibilities and goals of the Emergency Medical Services Authority (EMS Authority) are to: (1) assess statewide needs, effectiveness, and coordination of emergency medical service systems; (2) review and approve local emergency medical service plans; (3) coordinate medical and hospital disaster preparedness and response; (4) establish standards for the education, training and licensing of specified emergency medical care personnel; (5) establish standards for designating and monitoring poison control centers; (6) license paramedics and conduct disciplinary investigations as necessary; (7) develop standards for pediatric first aid and CPR training programs for child care providers; and (8) develop standards for emergency medical dispatcher training for the “911” emergency telephone system.

Summary of Funding. The budget proposes total expenditures of \$26 million (\$12.2 million General Fund) for the EMS Authority. This reflects a net decrease of \$10.5 million (\$10.1 million General Fund) primarily due to (1) the elimination of one-time only funds of \$10 million (General Fund) provided to certain Trauma Care Centers, and (2) an augmentation of \$2.3 million (\$1.6 million General Fund) to provide personal protective equipment for private ambulance providers.

| Summary of Expenditures | | | | |
|--------------------------------|-----------------|-----------------|------------------|--------------|
| (dollars in thousands) | 2005-06 | 2006-07 | \$ Change | % Change |
| Program Source | | | | |
| Emergency Medical Services | \$36,525 | \$26,041 | -\$10,484 | -28.7 |
| Funding Source | | | | |
| General Fund | \$22,393 | \$12,245 | -\$10,148 | -45.3 |
| Federal Funds | \$3,038 | \$2,688 | -\$350 | -11.5 |
| Reimbursements | \$9,506 | \$9,300 | -\$206 | -2.2 |
| Other Funds | \$1,588 | \$1,808 | \$220 | 13.8 |
| Total Expenditures | \$36,525 | \$26,041 | -\$10,484 | -28.7 |

Summary of Governor’s Proposed Reductions and Augmentations

- **Eliminates Supplemental Funding for Trauma Care Centers.** The budget reflects a reduction of the \$10.5 million General Fund appropriation to supplement certain Trauma Care Centers as provided by the Legislature in the Budget Act of 2005. The Governor viewed this legislative augmentation as a one-time only adjustment and therefore deleted it for 2006-07.
- **Personal Protective Equipment for Private Ambulance Personnel.** The budget proposes an increase of \$2.3 million (\$1.6 million General Fund) for distribution to local Emergency Medical Services Agencies for the purpose of purchasing personal protective equipment for 1,500 ambulance units (primarily private ambulance providers).

The EMS Authority states that about 3,585 ambulances are available in California of which 74 percent, or 2,664, are private ambulances providers. They estimate that only 28 percent of

the ambulances in the state have sufficient personal protective equipment (mainly head, body and respiratory protection) to respond to terrorism events and disasters.

The EMS Authority contends that generally, public providers have adequate equipment but that private providers generally do not. The Administration is proposing to solely provide grants for private providers unless small public providers can demonstrate a need for funding to purchase the specified equipment. As a condition of receiving grant funds, the EMS Authority will require providers to participate in California's disaster response system, as well as provide necessary training on the use of the equipment distributed.

- **Changes Proposed for Emergency Medical Services Personnel Preparedness.** The EMSA is seeking considerable changes to the (1) Paramedic Licensing and Enforcement program, (2) Day Care Provider Training Program, and (3) licensure and discipline process for Emergency Medical Technician-I (EMT I) and EMT II personnel. Specifically, the budget proposes an increase of \$1.6 million (\$1.5 million General Fund) to fund 30 new positions (to be phased-in over a three-year period) and to support consultant contracts. Under the Administration's proposal, a General Fund loan of \$1.5 million would be provided up-front and licensing fees would be increased over a three-year period to pay back the loan. Trailer bill legislation regarding the proposed program changes and fee increases is still being developed by the Administration.
- **California Medical Assistance Teams (CalMAT).** An increase of \$1.8 million (Reimbursements) is proposed to implement and administer three medical disaster response teams for California. Specifically the funds would be used to support two new positions at the EMSA Authority and to purchase medical supplies, pharmaceuticals and equipment. The CalMAT's would be used to respond to catastrophic disasters within the state.

4250 California Children and Families Commission

Background. The California Children and Families First Act of 1998 created this commission effective December 1998. The Commission consists of nine members—seven voting members and two ex-officio members. Three of the members are appointed by the Governor, two by the Senate Rules Committee, and two by the Speaker of the Assembly.

The commission is responsible for the implementation of comprehensive and integrated solutions in order to provide information and services promoting, supporting, and improving the early childhood development of children through the age of five. These solutions are provided either directly by the commission or through the efforts of the local county commissions.

Funding is provided through a 50-cent-per-package surtax on cigarettes, as of January 1, 1999, and an equivalent surtax on other tobacco-related products, as of July 1, 1999. These revenues are deposited in the California Children and Families Trust Fund. As required by law, a portion of these revenues are transferred to the Department of Health Services to backfill for specified decreases in Proposition 99 funds (i.e., Cigarette and Tobacco Product Surtax Funds).

Summary of Funding. The budget proposes total expenditures of \$706.6 million (Special Trust funds) for an increase of \$14.4 million over the revised current year.

The California Children and Families Commission funds must be used to supplement, not supplant, existing funds. The funds are distributed across accounts as required by Proposition 10. The funds are continuously appropriated pursuant to Section 30131.3 of the Revenue and Taxation Code and are not subject to an annual appropriation through the Budget Act.

The commission began funding initiatives using the various accounts in January 2000. These projects address recognized needs related to children's health care, child care and development, and family literacy.

| Summary of Expenditures | | | | |
|--------------------------------------|-----------|-----------|-----------|----------|
| (dollars in thousands) | 2005-06 | 2006-07 | \$ Change | % Change |
| Administrative Functions | \$16,599 | \$16,889 | \$290 | 1.7 |
| Local Assistance—Counties | \$692,166 | \$706,568 | \$14,402 | 2.0 |
| Funding Source | | | | |
| Counties Children & Families Account | \$459,446 | \$472,794 | \$13,348 | 2.9 |
| Mass Media Communications Account | \$50,510 | \$50,602 | \$92 | 0.2 |
| Education Account | \$67,894 | \$68,973 | \$1,079 | 1.6 |
| Child Care Account | \$36,059 | \$36,077 | \$18 | 0.04 |
| Research & Development Account | \$41,736 | \$41,752 | \$16 | 0.03 |
| Administration Account | \$16,601 | \$16,901 | \$300 | 1.8 |
| Unallocated Account | \$19,922 | \$19,932 | \$10 | 0.05 |
| Total Expenditures | \$692,166 | \$706,568 | \$14,402 | 2.1 |

4260 Department of Health Services

Background. The goals of the Department of Health Services (DHS) are to: (1) promote an environment that contributes to human health and well-being; (2) ensure the availability of equal access to comprehensive health services using public and private resources; (3) emphasize prevention-oriented health care programs; (4) promote the development of knowledge concerning the causes and cures of illness; and (5) ensure economic expenditure of public funds to serve those persons with the greatest health care needs. These goals are carried out through three key programmatic areas, including the Medi-Cal Program, Childrens Medical Services, and Public and Environmental Health.

Summary of Funding. The budget proposes expenditures of \$38.4 billion (\$14.4 billion General Fund), or a *net* increase of \$1.1 billion (\$533.5 million General Fund) over the revised 2005-06 budget. Of the total amount, \$37.3 billion (\$14.1 billion General Fund) is for local assistance. This represents an increase of \$1.025 billion (\$553.4 million General Fund), or 2.9 percent, over the revised current year.

The Governor proposes state support expenditures of \$1.1 billion (\$253.8 million General Fund) which represents an increase of \$70.6 million (reduction of \$20 million General Fund) over the revised current year.

| Summary of Expenditures | | | | |
|-----------------------------------------|---------------------|---------------------|--------------------|------------|
| (dollars in thousands) | 2005-06 | 2006-07 | \$ Change | % Change |
| Program Source | | | | |
| Health Information & Strategic Planning | \$23,129 | \$33,931 | \$10,802 | 46.7 |
| Environmental Controls | \$412,158 | \$444,124 | \$31,966 | 7.8 |
| Public Health Services | \$797,720 | \$821,827 | \$24,107 | 3 |
| Medical Care Services | \$34,123,936 | \$35,116,450 | \$992,514 | 2.9 |
| Licensing & Certification | \$133,008 | \$145,056 | \$12,048 | 9.1 |
| County Health Services | \$84,007 | \$67,135 | \$-16,872 | -20.1 |
| Primary Care & Family Health | \$1,729,644 | \$1,770,185 | \$40,541 | 2.3 |
| State Administration & Operations | \$53,499 | \$54,372 | \$873 | 1.6 |
| Distributed Administration (adjustment) | -\$51,076 | -\$51,890 | -\$814 | -1.6 |
| Totals, by Program Source | \$37,306,025 | \$38,401,190 | \$1,095,165 | 2.9 |
| Funding Source | | | | |
| General Fund | \$13,851,286 | \$14,384,799 | \$533,513 | 3.9 |
| Federal Funds | \$20,263,648 | \$20,491,678 | \$228,030 | 1.1 |
| Special Funds & Reimbursements | \$3,191,091 | \$3,524,713 | \$333,622 | 10.5 |
| Totals, by Fund | \$37,306,025 | \$38,401,190 | \$1,095,165 | 2.9 |

The Governor's budget proposes state support expenditures of \$1.1 billion (\$253.8 million General Fund) which would fund 6,028 authorized positions, an increase of 322 personnel-years over the revised current-year. This increase of 322 personnel-years (adjusted for salary savings) equates to a total of 533 new positions.

The following chart outlines the increase in state positions, as adjusted for salary savings, by program area. It should also be noted that the DHS obtained a significant increase in staff through the Budget Act of 2005 as shown below.

| Department of Health Services Authorized and Proposed Positions (as adjusted) | | | | | |
|-------------------------------------------------------------------------------|------------------------------------|------------------------------------|-------------------------------------------|--------------------------------------------|------------------------------------|
| DHS Program Areas | 2004-05 Authorized Positions | 2005-06 Authorized Positions | Increased Positions In Current Year | Total Proposed Positions for 2006-07 | Proposed Increased Positions |
| Health Information & Strategic Planning | 143.4 | 142.6 | 0.8 | 159.2 | 16.6 |
| Environmental Controls | 611.3 | 678.3 | 67.0 | 733.9 | 55.6 |
| Public Health Services | 449.2 | 423.5 | -25.7 | 460.6 | 37.1 |
| Subtotal: Public & Environmental Health | 1,203.9 | 1,244.4 | 40.5 | 1,353.7 | 109.3 |
| Medi-Cal Services | 2,250.9 | 2,447.8 | 196.9 | 2,576.8 | 129 |
| Licensing & Certification | 778.9 | 878.6 | 99.7 | 966.4 | 87.8 |
| County Health Services | 105.1 | 108.1 | 3.0 | 105.2 | -2.9 |
| Primary Care & Family | 590.3 | 624.0 | 33.7 | 622.2 | -1.8 |
| Subtotal: Health Care | 3,725.2 | 4,058.5 | 333.3 | 4,270.6 | 212.1 |
| Administration | 387.4 | 403.7 | 16.3 | 404.5 | 0.8 |
| TOTAL POSITIONS | 5,316.5 | 5,706.6 | 390.1 | 6,028.8 | 322.2** |

** The 322.2 personnel-years equates to a total of 533 proposed new positions.

Highlights for the Medi-Cal Program

Summary of Funding and Enrollment. The Governor's budget proposes total expenditures of \$34.7 billion (\$13.7 billion General Fund) which reflects a General Fund increase of \$974.7 million (\$542.3 million General Fund) above the revised current-year budget. The net General Fund increase primarily reflects (1) increases in caseload and utilization for aged, blind and disabled individuals; (2) adjustments to the federal Medicare Part D Drug Program; and (3) increases in federal Medicare premiums.

It should be noted that General Fund support for mental health programs has been transferred from the Department of Health Services budget to the Department of Mental Health's budget. This change results in the 2006-07 Medi-Cal expenditures appearing \$339.9 million less than it otherwise would have been.

California continues to have one of the lowest average cost-per-enrollee rates in the nation at \$5,509 per enrollee, versus a national average of about \$6,895 per enrollee.

Medi-Cal provides health insurance coverage to about 18 percent of Californians. Average monthly caseload is anticipated to increase in 2006-07 by about 126,600 people, or 1.9 percent, for a total of 6.8 million eligibles. Of the total Medi-Cal eligibles about 38.8 percent, or 2.6 million people, are categorically-linked to Medi-Cal through enrollment in public cash grant assistance programs (i.e., SSI/SSP or CalWORKs).

Almost all Medi-Cal eligibles fall into four broad categories of people: (1) aged, blind or disabled; (2) families with children; (3) children only; and (4) pregnant women.

Generally, Medi-Cal eligibility is based upon family relationship, family income level, asset limits, age, citizenship, and California residency status. Other eligibility factors can include medical condition (such as pregnancy or medical emergency), share-of-cost payments (i.e., spending down to eligibility), and related factors that are germane to a particular eligibility category.

Summary of Governor's Reductions and Augmentations for the Medi-Cal Program

- **Five Percent Rate Decrease.** The Governor reduces the rates paid to Medi-Cal providers by five percent effective January 1, 2006 through December 31, 2006 for current year savings of \$50.1 million (\$22.5 million General Fund) and budget year savings of \$90.3 million (\$38.5 million General Fund). The Administration prevailed on litigation which enables them to make this adjustment.

The table below shows the estimated reductions by category of service. It should be noted that services provided under the California Children Services (CCS) Program, the Child Health Disability Prevention (CHDP) Program and the Genetically Handicapped Persons Program (GHPP) are exempt from this reduction, as well as 24-hour facilities including hospitals.

| Governor's 5 Percent Rate Reduction for Medi-Cal Fee-For-Service | | | |
|-------------------------------------------------------------------------|-------------------------------------------------------------------------|---------------------------------------------------------------------------|----------------------------------------------|
| Category of Medi-Cal Service | 5 Percent Cut 2005-06 (January - June) (Total Funds) | 5 Percent Cut 2006-07 (June to December) (Total Funds) | Total Amount (January – December) |
| Physicians | \$14.6 million | \$32.6 million | \$47.2 million |
| Other Medical | \$11.9 million | \$22 million | \$33.9 million |
| Medical Transportation | \$2.0 million | \$3.9 million | \$5.9 million |
| Other Services | \$1.4 million | \$2.7 million | \$4.1 million |
| Home Health | \$2.3 million | \$4.9 million | \$7.3 million |
| Dental | \$15.9 million | \$15.9 million | \$31.8 million |
| TOTALS | \$48.2 million | \$82 million | \$130.2 million |
| Funding Source | | | |
| General Fund | \$22.4 million | \$38.5 million | \$60.9 million |
| Federal Funds | \$25.8 million | \$82 million | \$69.3 million |

- **Reduction to County Eligibility Processing for the Medi-Cal Program.** Counties are responsible for processing all Medi-Cal Program enrollment applications, including those for children, seniors and the disabled. Generally, federal law requires a governmental entity to conduct this processing. The budget eliminates \$42.4 million (\$21.2 million General Fund) in 2006-07 for County Eligibility Administration which historically has been provided to counties to fully fund the salaries and overhead costs of Medi-Cal Program eligibility workers. With less county workers it will take longer to process Medi-Cal applications, including those applications received through increased outreach activities.

- **Reductions to Adult Day Health Care Program.** A series of proposals are included to reduce and restructure the Adult Day Health Care (ADHC) Program for a total funding reduction of \$19.8 million (\$9.9 million General Fund) in 2006-07, and as much as \$128.4 million (total funds) annually. The table below displays these reductions. In addition, the moratorium on the certification of new centers to provide ADHC services is continued by the Administration for savings of \$12.1 million (\$6 million General Fund).

The DHS states that the federal Centers for Medicare and Medicaid (CMS) are requiring California to make adjustments to the program in order to maintain federal financial participation. However, at this time it is unclear whether the Administration's proposed adjustments will meet the requirements of the federal CMS. In addition, more information is needed in order to ascertain the affect of the proposals on the individuals who need these services to maintain their health and safety. The proposed reductions will require statutory change.

The budget also contains an increase of \$873,000 (\$140,000 General Fund) to support 8 new positions (four at the DHS and four at the Department of Aging) to implement the proposed changes.

Administration's Adult Day Health Care Reductions

| Proposed Action | Proposed Implementation Date | 2006-07 Total Savings (Total Funds) | Annual Savings (Total Funds) |
|-------------------------------------------------------|------------------------------|-------------------------------------|------------------------------|
| Unbundle the Rates | March 2007 | \$16.9 million | \$82.6 million |
| Require onsite Treatment Authorizations (TARS) | March 2007 | \$740,000 | \$11.7 million |
| Apply more restrictive medial criteria for enrollment | March 2007 | \$2.2 million | \$34.1 million |
| Conduct Post Audit Recoveries | March 2007 | Unknown | unknown |
| Subtotal | | \$19.8 million | |
| Continue Moratorium | ongoing | \$12.1 million | \$12.1 million |
| TOTALS | | \$31.9 million | \$140.5 million |

- **Implementation of Medicare Part D Drug Program.** The federal Medicare Part D Drug Program is effective as of January 1, 2006 and is presently being implemented. The budget reflects a series of adjustments across the health and human services budget including the following key items:
 - ✓ Medi-Cal has discontinued full drug coverage for all dual eligibles (Medi-Cal and Medicare enrollees) since they are covered under the Part D Program, with the exception of coverage provided under AB 132, Statutes of 2006.
 - ✓ The budget includes \$206 million (\$103 million General Fund) for selected drugs not covered by the Part D Program, including barbiturates, benzodiazepines and various medical supplies. This is consistent with the Budget Act of 2004.

- ✓ Medi-Cal will no longer receive certain drug rebates due to the Part D Drug Program implementation. Drug rebates were previously used to offset General Fund expenditures by \$544 million.
- ✓ Federal law requires states to contribute part of the savings obtained from pharmaceutical coverage changes for dual eligibles (Medicare and Medi-Cal) back to the federal government (i.e., clawback payments). The budget assumes that \$768.1 million General Fund will be provided to the federal government for this purpose.
- ✓ Medi-Cal's budget reflects a net increase of \$211.8 million (General Fund) due to overall implementation costs associated with the Medicare Part D Drug Program.
- **Simplification of the Medi-Cal Redetermination Form.** The Administration is in the process of changing the Medi-Cal redetermination form to make it easier for Medi-Cal enrollees to complete and maintain their enrollment. An increase of \$42.1 million (\$21.1 million General Fund) is provided to reflect an increased caseload of 27,672 enrollees, or an additional 2 percent per month retention rate, due to these form changes. An increase of \$3.3 million (\$1.7 million General Fund) has also been provided for County Medi-Cal Administration processing for these applications.
- **Increasing Medi-Cal and Healthy Families Program Enrollment for Children via Outreach Activities.** The budget includes several strategies to improve the enrollment of uninsured, eligible children into the Medi-Cal and Healthy Families Program. The following strategies are funded under the Medi-Cal Program for total expenditures of \$27.4 million (\$10.5 million General Fund):
 - ✓ An increase of \$19.7 million (\$8.5 million General Fund) for the DHS to allocate to 20 counties, with the greatest number of uninsured children, to partner with public and private community organizations for outreach, streamlined enrollment and related measures. Trailer bill legislation is also forthcoming on this item.
 - ✓ An increase of \$3.4 million (\$1.4 million General Fund) for a media campaign that would work in conjunction with the county-based outreach proposal referenced above.
 - ✓ An increase of \$3.1 million (federal funds) to reimburse the Healthy Families Program administered by the Managed Risk Medical Insurance Board for enrollment assistance provided by Certified Application Assistants. (See further discussion of this issue under Item 4280 below.)
 - ✓ An increase of \$932,000 (\$466,000 General Fund) for 10 new positions at the DHS to implement and administer the allocations to counties and the media campaign.
 - ✓ An increase of \$250,000 (\$125,000 General Fund) to increase the level of support for toll-free telephone lines from \$1.3 million to \$1.6 million.
- **Implementation of Hospital Financing Waiver and SB 1100 (Perata), Statutes of 2005.** The budget includes an additional \$246 million (federal funds) in 2005-06 and \$570.7 million (federal funds) in 2006-07 to reflect implementation of the Hospital Financing Waiver. Due to implementation of the Waiver, state General Fund savings of at least \$149 million are expected for 2006-07 as well.

However, it should be noted the federal government has not yet approved California's methodology for determining how a "certified public expenditure" (CPE) is calculated. Until this approval is obtained, Public Hospitals, including University of California hospitals, cannot receive supplemental federal fund payments for Disproportionate Share Hospital (DSH) expenditures or Safety Net Care Pool funds. At this time Public Hospitals are only receiving Medi-Cal per diem payments as provided under contract with the California Medical Assistance Commission. Cash-flow for these hospitals is becoming problematic.

The DHS states that approval by the federal government should be forthcoming. However, even after approval is received, significant technical work, including development of detailed cost accounting documents, still needs to be completed by the DHS and Public Hospitals.

In addition, the department is seeking an increase of \$1.5 million (\$748,000 General Fund) to fund 13 new state positions to administer the Hospital Financing Waiver. These positions are in addition to those already provided in SB 1100, Statutes of 2005.

- **Implementation of Managed Care Expansion.** The Budget Act of 2005 provided for the expansion of Medi-Cal Managed Care to 13 additional counties (i.e., geographic expansion of the existing program). The Administration states that the cost in 2006-07 for three counties—El Dorado, Imperial and Placer—to implement Medi-Cal Managed Care is \$4.6 million (General Fund). All of these costs are associated with providing Medi-Cal services and the payment time lag for claiming reimbursement.

In addition, the Department of Health Services is requesting an augmentation of \$1.6 million (\$718,000 General Fund) to hire 17 new positions to proceed with implementation of the geographic expansion. These positions are in addition to those provided through the Budget Act of 2005.

- **Outreach to Increase Enrollment of Seniors and Persons with Disabilities in Medi-Cal Managed Care.** A total of \$2 million is proposed to increase enrollment of seniors and persons with disabilities into Medi-Cal Managed Care on a voluntary basis. First, an increase of \$1.1 million (\$550,000 General Fund) is provided to conduct focused education and outreach activities. Second, an increase of \$916,000 (\$386,000 General Fund) is provided to support 9 new state positions. The DHS states that some of these positions will be used to develop performance measures relating to special need populations. However, it is unclear at this time what specific measures are to be developed or whether statutory change will be required.
- **New Medi-Cal Managed Care Plan for Dual Eligibles (Medicare and Medi-Cal/SSI Only).** The Administration is proposing to develop two new pilot project models regarding Medi-Cal Managed Care. One of the proposed pilot models—"Access Plus Community Choices"—would be implemented in two counties (one County Organized Healthcare county and one Two-Plan Model county). This pilot model would require the mandatory enrollment of seniors and disabled individuals living in the county. Implementing trailer bill language is being drafted by the Administration.

The other proposed pilot model—"Access Plus"—would operate within the existing Geographic Managed Care counties (San Diego and Sacramento) and would involve

voluntary enrollment. Trailer bill language is forthcoming from the Administration on this proposal as well.

An increase of \$1.2 million (\$525,000 General Fund) is requested to hire 11 new positions to design and implement these two pilot project models.

- **New Coordinated Care Management Pilot Project.** An increase of \$473,000 (\$208,000 General Fund) to fund 5 new positions is contained in the budget to develop and implement a new pilot project—"Coordinated Care Management"—to improve health outcomes for certain Medi-Cal Fee-for-Service enrollees. Specifically, Medi-Cal enrollees who are seniors or disabled and have chronic health conditions would be targeted for enrollment in this project. Trailer bill language is forthcoming from the Administration on this proposal.
- **Licensing and Certification Division Staff Increase.** The budget includes an increase of \$17.6 million (total funds) for 141 new state positions to complete required state licensing and federal certification functions, including complaint investigations of nursing homes. These activities would be funded with a newly proposed Licensing and Certification Fund. Trailer bill language to restructure certain licensing and certification requirements, as well as to increase fees paid by healthcare facilities will be forthcoming from the Administration.
- **Additional Staff for Fingerprint Investigation.** An augmentation of \$1.3 million (Licensing and Certification Fund) is proposed to add 14.5 positions to the existing fingerprint investigation unit at the DHS. In addition, trailer bill language is forthcoming that would modify the existing criminal background check process. This proposal is part of the Administration's restructuring of licensing and certification functions.
- **Development of a Long-Term Care Community Options and Assessment Protocol.** The budget contains \$595,000 (\$297,000 General Fund) to fund one new position and to provide contract funds of \$500,000 to develop and test the Community Options & Assessment Protocol (COAP). The purpose of COAP will be to use common assessment information across multiple state departments for programs designed to assist individuals to remain in their homes instead of transitioning to nursing homes.
- **Long-Term Care Rate Adjustments per AB 1629, Statutes of 2004 and Quality Assurance Fee.** The budget includes funding of \$787 million (\$393.5 million General Fund) in 2006-07 to reflect the requirements of the legislation, including various rate adjustments for freestanding nursing facility level B and certain adult subacute facilities.

In addition, the Department of Health Services is seeking an augmentation of \$6.8 million (\$3.4 million General Fund) to hire 41 new positions to fully implement AB 1629, Statutes of 2004.

- **Long-Term Care Rate Adjustment for Other Facilities.** The budget provides an increase of \$172 million (\$86 million General Fund) for various rate increases for freestanding level A nursing homes, Distinct-Part level B nursing homes, and adult sub-acute facilities that provide long-term care, including Intermediate Care Facilities for the Developmentally Disabled (ICF-DD). These facilities are not included under the AB 1629, Statutes of 2004 designation.

- **Legal Settlement Results in General Fund Savings.** As part of a federal settlement, California will be receiving a repayment of \$42.2 million from Serono S.A., the manufacturer of Serostim, an anti-wasting drug mainly used for patients with AIDS. This settlement will be used to offset General Fund support on a one-time basis.
- **Expansion of Nursing Facility Waiver.** The budget contains \$1.1 million (\$355,000 General Fund) to support 14 new positions to expand the existing Nursing Facility Waiver and to implement SB 643, Statutes of 2005. The waiver expansion would add 500 persons to the waiver.
- **State Staff for Self-Directed Waiver and Assisted Living Waiver.** An increase of \$1.4 million (\$563,000 General Fund) is proposed to hire 8 new positions to conduct work associated with these waiver expansions.
- **Increased Staff for Treatment Authorization Processing (TAR).** The budget augments by \$713,000 (\$285,000 General Fund) to fund 6 new positions to create a new “Quality Assurance and Program Integrity” unit to collect, manage and monitor Medi-Cal utilization review and to expand the current “e-TAR” and auto-adjudication processes.
- **State Staff for Aged Drug Rebates.** The budget proposes to extend 11 positions for one-year in order to resolve the aged drug rebate backlog. An increase of \$988,000 (\$494,000 General Fund) is provided for this purpose.
- **State Staff to Audit County Administration Cost Claims.** An increase of \$506,000 (\$253,000 General Fund) is requested to hire 5 new positions to conduct oversight and data analyses of county administration expenditures related to the Medi-Cal Program.

Highlights for Primary Care & Family Health, Public Health & Environmental Health and County Health Services

Summary of Funding. The Governor proposes total expenditures of \$3.7 billion (\$645.9 million General Fund) for 2006-07. This represents an increase of \$120.5 million, or 3.4 percent, above revised 2005-06 General Fund expenditures. There are several public health-related initiatives being proposed. These are discussed below.

Summary of Governor’s Reductions and Augmentations for Public Health

- **AIDS Drug Assistance Program (ADAP).** Total expenditures of \$296.4 million (\$107.7 million General Fund, \$100.9 million federal funds, and \$87.8 million in drug rebates) are proposed which reflects an increase of \$28.1 million (\$16.5 million General Fund) over the revised current-year. The proposed increase is based on actual ADAP expenditures through June 2005 and reflects ongoing cost trends for the program.

The principle cost factors for ADAP are steadily increasing drug prices and an increasing client caseload. Individuals enrolled in the ADAP often continue in the program for long periods since HIV/AIDS is a chronic illness, and other public and private healthcare are limiting prescription drug coverage. It is estimated that ADAP will serve over 28,000 clients in 2006-07.

- **Pandemic Influenza Initiative.** The budget proposes a total increase of \$34.3 million (General Fund) for preparedness strategies related to a pandemic influenza outbreak. No

federal funds for this purpose are included in the budget at this time. Specifically, the augmentation includes the following items:

- ✓ An increase of \$17.9 million (General Fund) related to local health department preparedness. This includes \$16 million for allocation to the local health departments and \$1.9 million for state support, including 5 new state positions.
 - ✓ An increase of \$14.3 million (General Fund) for a public education and information campaign, including an emergency response hotline that will provide general information on public health emergency preparedness with specific information on pandemic influenza. The funding would also support 5 new state positions.
 - ✓ An increase of \$673,000 (General Fund) is requested to fund 5 new state positions to strengthen the DHS' pandemic influenza planning efforts and to conduct epidemiologic investigations of influenza and respiratory outbreaks.
 - ✓ An increase of \$1.5 million (General Fund) is proposed for managing antivirals and vaccines for pandemic influenza. Specifically, \$1.3 million would be used for local assistance and \$203,000 would be used for state operations.
- **Healthcare and Community Infection Control Program.** The budget proposes an increase of almost \$1.4 million (General Fund) to develop and maintain a program for the surveillance, laboratory testing, prevention and control of healthcare-associated and community-acquired infections. A total of 10 new state positions are requested for this purpose.
 - **Expansion of Local and Statewide Communicable Disease Surveillance Infrastructure.** An increase of \$1.3 million (General Fund) and 4 new state positions is proposed to expand and maintain state and local capacity to conduct communicable disease surveillance.
 - **Public Health Preparedness for Chemical and Radiological Disasters and Terrorist Attacks.** The budget proposes an augmentation of almost \$4.2 million (General Fund) and 15 new state positions to assist local agencies in planning, training, responding, and recovering from natural and intentional disasters that could result in chemical and radiological contamination of food, water, and the environment. No federal funds for this purpose are included in the budget.
 - **Infectious Disease Laboratory Infrastructure—Surge Capacity for Bioterrorism and Emerging Diseases.** The budget provides an increase of \$4.2 million (General Fund) to strengthen the state's laboratory infrastructure. Of this amount, \$2.5 million would be provided for local assistance and \$1.7 million would be used for state support, including 13 new state positions.
 - **Workforce Training on Capacity for Outbreak Response.** An increase of \$350,000 (General Fund) is provided to train existing frontline public health field investigation personnel to more effectively respond to any infectious disease event, including bioterrorism and pandemic influenza.
 - **Prostate Cancer.** The budget includes \$3.5 million (General Fund), on a one-time basis, for the treatment of Prostate Cancer (through the Improving Access, Counseling and Treatment

for Californians with Prostate Cancer—IMPACT) pursuant to Chapter 442 (Ortiz), Statutes of 2005.

- **Battered Women Shelter Program—Underserved Services.** The budget contains an increase of \$350,000 (General Fund) to continue full funding of the \$1.1 million (total funds) provided in the Budget Act of 2005 to assist shelters to serve communities that traditionally do not seek shelter services. The budget proposes to use General Fund backfill to replace funds previously obtained through a legal settlement (i.e., the Nine West Settlement Agreement) which has now been fully expended.
- **Implementation of the California Safe Cosmetics Act-- SB 484, Statutes of 2005 (Migden).** The budget provides \$495,000 (General Fund) and 4 new positions to implement this act regarding the composition and safety of cosmetics sold in California.
- **Implementation of AB 121, Statutes of 2005 (Vargas)—Lead in Candy.** An increase of \$1 million (General Fund) is provided to support 8 new positions to initiate the required activities of this legislation regarding the regulation of lead content in candy.
- **Continues Deferral of State Support for County Medical Services Program.** The Governor proposes to suspend for another year the \$20.2 million (General Fund) appropriation for the County Medical Services Program (CMSP). This \$20.2 million has been suspended for the past several years since the CMSP has had reserve funds available.

4270 California Medical Assistance Commission

Background. The California Medical Assistance Commission (CMAC) was established in 1983 to negotiate contracts for specific services under the Medi-Cal Program on behalf of the Department of Health Services. State law and regulations govern the Commission's activities. The Commission is composed of seven voting members appointed to four-year terms.

Major Commission activities include the following:

- Negotiating contracts for Medi-Cal fee-for-service hospital inpatient services statewide;
- Negotiating contracts with hospitals for supplemental payments under special programs available to contract hospitals, such as hospitals with a disproportionate share of Medi-Cal patients; and
- Developing and negotiating per capita, at-risk managed care contracts for health care services to Medi-Cal enrollees with County Organized Health Care Systems and participating Geographic Managed Care Plans.

Summary of Funding. The budget proposes total expenditures of \$2.8 million (total funds) to support 24 positions. This reflects a total net increase of \$145,000 (increase of \$320,000 General Fund and decrease of \$165,000 in other funds) and one position over the revised current year. This new position is to be used to assist the Department of Health Services in negotiating rates for Medi-Cal Managed Care Plans.

| Summary of Expenditures (dollars in thousands) | 2005-06 | 2006-07 | \$ Change | % Change |
|----------------------------------------------------------|----------------|----------------|--------------|------------|
| CA Medical Assistance Commission | \$2,682 | \$2,827 | \$145 | 5.4 |
| Funding Source | | | | |
| General Fund | \$1,118 | \$1,428 | \$320 | 27.7 |
| Emergency Services & Supplemental Payments Fund | 108 | 0 | | -100.0 |
| Reimbursements | \$1,456 | \$1,399 | -\$57 | -3.9 |
| Total Expenditures | \$2,682 | \$2,827 | \$145 | 5.4 |

4280 Managed Risk Medical Insurance Board

Background. The Managed Risk Medical Insurance Board (MRMIB) administers programs, which provide health care coverage through private health plans to certain groups without health insurance. The MRMIB administers the (1) Healthy Families Program; (2) Access for Infants and Mothers (AIM); and (3) Major Risk Medical Insurance Program.

Governor's Budget. The budget proposes total expenditures of \$1.2 billion (\$379.7 million General Fund, \$732 million Federal Trust Fund and \$105.6 million in other funds) for all programs administered by the Managed Risk Medical Insurance Board. This funding level represents a net increase of \$126.9 million (\$49.7 million General Fund) over the revised current-year. The net increase is due to changes in the Healthy Families Program as discussed below.

| Summary of Expenditures (dollars in thousands) | 2005-06 | 2006-07 | \$ Change | % Change |
|-------------------------------------------------------------------|--------------------|--------------------|------------------|-------------|
| Program Source | | | | |
| Major Risk Medical Insurance Program (including state support) | \$45,973 | \$42,003 | -\$3,970 | -8.6 |
| Access for Infants & Mother (including state support) | \$118,237 | \$115,409 | -\$2,828 | -2.4 |
| Healthy Families Program (including state support) | \$915,717 | \$1,055,638 | \$139,921 | 15.3 |
| County Health Initiative Program | \$10,436 | \$4,204 | -\$6,232 | 59.7 |
| Totals Expenditures | \$1,090,363 | \$1,217,254 | \$126,891 | 11.6 |
| Fund Sources | | | | |
| General Fund | \$329,972 | \$379,662 | \$49,690 | 15.0 |
| Federal Funds | \$643,628 | \$731,959 | \$88,331 | 13.7 |
| Other Funds | \$116,763 | \$105,633 | -\$11,130 | 9.5 |
| Total Funds | \$1,090,363 | \$1,217,254 | \$126,891 | 11.6 |

Highlights for the Healthy Families Program

Background. The Healthy Families Program (HFP) provides health, dental and vision coverage through managed care arrangements to children (up to age 19) in families with incomes up to 250 percent of the federal poverty level. Families pay a monthly premium and copayments as applicable. The benefit package is modeled after that offered to state employees. Eligibility is conducted on an annual basis.

Summary of Funding and Enrollment. A total of \$1.047 billion (\$377.2 million General Fund, \$659.6 million Federal Title XXI Funds, \$2.2 million Proposition 99 Funds, and \$8.1 million in reimbursements) is proposed for the HFP, excluding state administration. This reflects an increase of \$138.7 million (\$50.5 million General Fund), or 15.3 percent over the revised current-year.

The budget assumes a total enrollment of 933,111 children as of June 30, 2007, an increase of 105,813 children over the revised current year enrollment level or a growth rate of 12.8 percent.

This projected enrollment level reflects a higher growth trend primarily attributable to (1) proposed modifications to the enrollment process; (2) increased funding for outreach; and (3) a proposed incentive plan for the Certified Application Assistance Program.

Total enrollment is summarized by population segments below:

- Children in families up to 200 percent of poverty: 643,746 children
- Children in families between 201 to 250 percent of poverty: 211,631 children
- Children in families who are legal immigrants: 17,689 children
- Access for Infants and Mothers (AIM)-Linked Infants 14,149 children
- New children due to restoration of Certified Application Assistance 33,496 children
- New children due to modifications in the enrollment process 12,400 children

Summary of Governor's Reductions and Augmentations

- **Expands the Use of Certified Application Assistance Fees to Increase HFP Enrollment.** Historically, the HFP utilized a comprehensive outreach and enrollment process, which included the use of Certified Application Assistants (CAA), public relations, and a media campaign. Under the CAA approach, a \$50 fee would be paid for each person successfully enrolled in the HFP or Medi-Cal, and a \$25 fee would be paid for each annual eligibility re-determination enrollment. The CAA approach ended in 2001 due to fiscal constraints.

The Budget Act of 2005 restored funding for CAA's and the budget builds upon this restoration. Specifically, the budget provides the following adjustments for the CCA outreach approach:

- Provides \$11.8 million (total funds) to continue the CAA fees which represents an increase of \$5.4 million over the revised current-year.

- Proposes \$2.5 million (\$2 million General Fund) to create a new incentive program for CAA's. To be eligible to receive an incentive payment, the CAA would need to increase the number of their assisted applications by 20 percent over their prior quarter applications. The incentive payment would be 40 percent of the total payments made in the qualifying quarter.
- Provides \$26.7 million (total funds) to support anticipated new HFP caseload which is attributed to the CAA efforts. This additional funding would provide enrollment to 33,496 new children.

It should be noted that the budget also includes \$3.4 million (\$1.4 million General Fund) within the Medi-Cal Program, under the Department of Health Services, for a media campaign to encourage enrollment of all eligible children into a state health program (i.e., Medi-Cal or the HFP).

- **Streamline HFP Enrollment Process and Anticipated Enrollment.** Trailer bill legislation is proposed that would modify the HFP enrollment process to discontinue requiring applicants to (1) submit a premium at the time of HFP application, and (2) make a plan selection at the time of initial HFP application. Instead, HFP applicants would pay their premium upon actual enrollment into the program, and would have up to three months to choose a health care provider. Under this enrollment process if no immediate health plan choice is made, the default would be to place the child into the community-based plan with the option to change to another plan within three months.

This statutory change, coupled with expanding the availability of a web-based application process (called Health-e-app), is intended to increase HFP enrollment by an additional 12,400 children.

The budget proposes an increase of \$9.5 million (total funds) to support the increased caseload of 12,400 children, and the associated costs for children who are anticipated to enroll earlier in the program due to the processing changes. In addition, the MRMIB is seeking an increase of \$91,000 (total funds) to support a new position for this purpose.

- **Modify HFP and Access for Infants and Mothers (AIM) Statute to Eliminate Potential for Duplicative Health Insurance Coverage.** Trailer bill legislation is proposed to amend the HFP and AIM statutes to eliminate duplicative HFP enrollment of AIM-linked infants who already have no-cost Medi-Cal eligibility or private insurance. The budget includes one-time funding of \$300,000 (\$195,000 General Fund) for information technology changes and to develop a new AIM Program application and handbook. The trailer bill legislation assumes a July 1, 2007 effective date.
- **Request for More State Staff.** The budget proposes an augmentation of \$983,000 (total funds) to support 10 new positions. It should be noted that the MRMIB was provided a total of 14 new positions in 2005-06, including three for HFP outreach functions.
- **Increased Oversight of Mental Health Services for HFP Enrollees.** An increase of \$432,000 (\$151,000 Mental Health Services Fund) is provided to support two new positions and to provide \$266,000 in contract funds to increase oversight in the delivery of mental health services for HFP enrollees with serious emotional disturbances.

- **Continues County Health Initiative Matching (CHIM) Fund Program.** The budget proposes a total of \$3.8 million (\$1.3 million County Health Initiative Matching Fund and \$2.4 million federal funds) for the County Health Initiative Matching Fund Program as established through AB 495, Statutes of 2001. This funding level supports a total of 2,967 children in the pilot counties of Alameda, Santa Clara, San Mateo and San Francisco.

Through this program, counties, local initiatives and County Organized Health Care Systems can submit proposals to receive federal matching funds to provide health insurance coverage to children with family incomes between 250 percent and 300 percent of poverty. These matching funds are unexpended federal Title XXI State Children's Health Insurance Program (S-CHIP) funds which the state presently does not need to support the existing HFP.

- **Continues Funding for Rural Demonstration Projects.** The budget continues funding for the Rural Demonstration Projects at \$5.8 million (\$2 million Proposition 99 Funds) which is the same amount as provided in the current year.

Highlights for the Access for Infants and Mothers Program

Summary of Funding and Enrollment. The Access for Infants and Mothers (AIM) Program provides health insurance coverage to women during pregnancy and up to 60 days postpartum, and covers their infants up to two years of age. Eligibility is limited to families with incomes from 200 to 300 percent of the poverty level. Subscribers pay premiums equal to 2 percent of the family's annual income plus \$100 for the infant's second year of coverage.

As of July 1, 2004, infants born to AIM women are automatically enrolled in the Healthy Families Program (HFP) at birth. Infants born during 2004-05 to AIM mothers who enrolled in AIM prior to July 1, 2005 will remain in AIM through two years of age. Therefore, infant enrollment is declining and shifting to the HFP. This is because infants will age out of the AIM Program at two years old while no new infants will be enrolled after July 1, 2004, unless the AIM mother was enrolled prior to that date. Therefore, the AIM Program is transitioning to focusing only on pregnant women and 60-day post partum health care coverage.

A total of \$114.5 million (\$50.5 million Perinatal Insurance Fund and \$63.9 million federal funds) is proposed for AIM in 2006-07. A total of 12,137 women and 8,304 second-year infants are expected to utilize AIM. This funding level reflects a reduction of \$2.9 million (total funds) over the revised current-year. This reduction is due to the transition of the program as referenced.

Highlights for the Major Risk Medical Insurance Program

Summary of Funding and Enrollment. The Major Risk Medical Insurance Program (MRMIP) provides health care coverage to medically high-risk individuals as well as individuals who have been refused coverage through the health insurance market. The budget proposes total expenditures of \$42 million (Major Risk Medical Insurance Fund) to serve over 7,000 individuals. The budget proposes no substantial changes to the program.

4300 Department of Developmental Services

Background. The Department of Developmental Services (DDS) administers services in the community through 21 Regional Centers (RC) and in state Developmental Centers (DC) for persons with developmental disabilities as defined by the provisions of the Lanterman Developmental Disabilities Services Act. To be eligible for services, the disability must begin before the consumer's 18th birthday, be expected to continue indefinitely, present a significant disability and be attributable to certain medical conditions, such as mental retardation, autism, and cerebral palsy.

The purpose of the department is to: (1) ensure that individuals receive needed services; (2) ensure the optimal health, safety, and well-being of individuals served in the developmental disabilities system; (3) ensure that services provided by vendors, Regional Centers and the Developmental Centers are of high quality; (4) ensure the availability of a comprehensive array of appropriate services and supports to meet the needs of consumers and their families; (5) reduce the incidence and severity of developmental disabilities through the provision of appropriate prevention and early intervention service; and (6) ensure the services and supports are cost-effective for the state.

Summary of Funding. The budget proposes total expenditures of \$3.8 billion (\$2.4 billion General Fund), for a *net* increase of \$208.7 million (\$155.6 million General Fund) over the revised current year. The proposed augmentation represents an increase of 5.7 percent over the revised current year.

Of the total amount, \$3.1 billion (\$2 billion General Fund) is for services provided in the community, \$706.6 million (\$383.4 million General Fund) is for support of the state Developmental Centers, and \$37.3 million (\$24.7 million General Fund) is for state headquarters administration.

The budget reflects a net increase of \$19.6 million (\$14.9 million General Fund) over the current year for the planned July 2007 closure of Agnews Developmental Center, located in San Jose. This funding includes adjustments to investment in housing options, community-based services and supports, and related resource development. An outline of the Agnews closure proposal is contained under the Issues Section for the Developmental Centers, below.

| Summary of Expenditures | | | | |
|------------------------------------------------------------------------------------------------------------|-------------|-------------|-----------|----------|
| (dollars in thousands) | 2005-06 | 2006-07 | \$ Change | % Change |
| Program Source | | | | |
| Community Services Program | \$2,882,730 | \$3,098,476 | \$215,746 | 7.5 |
| Developmental Centers | \$713,295 | \$706,611 | -\$6,684 | -0.9 |
| State Administration | \$37,659 | \$37,324 | -\$335 | -0.9 |
| Total, Program Source | \$3,633,684 | \$3,842,411 | \$208,727 | 5.7 |
| Funding Source | | | | |
| General Fund | \$2,250,684 | \$2,406,249 | \$155,565 | 6.9 |
| Federal Funds | \$56,377 | \$54,943 | -\$1,434 | -2.5 |
| Program Development Fund | \$2,000 | \$2,003 | \$3 | 0.2 |
| Lottery Education Fund | \$489 | \$489 | 0 | 0 |
| Developmental Disabilities Services | \$232 | \$40 | -\$192 | -82.8 |
| Reimbursements: including Medicaid Waiver, Title XX federal block grant and Targeted Case Management | \$1,323,902 | \$1,378,687 | \$54,785 | 4.1 |
| Total Expenditures | \$3,633,684 | \$3,842,411 | \$208,727 | 5.7 |

Highlights for Community-Based Services Provided Through Regional Centers

Background. The DDS contracts with 21 not-for-profit Regional Centers (RCs) which have designated catchment areas for service coverage throughout the state. The RCs are responsible for providing a series of services, including case management, intake and assessment, community resource development, and individual program planning assistance for consumers. RCs also purchase services for consumers and their families from approved vendors and coordinate consumer services with other public entities.

Summary of Funding and Consumer Population. The budget proposes expenditures of \$3.1 billion (\$2 billion General Fund) for community-based services, provided via the RCs, to serve a total of 216,565,000 consumers living in the community. This funding level includes \$485.9 million for RC operations and \$2.6 billion for the purchase of services, including funds for the Early Start Program and habilitation services.

The budget reflects a *net* overall increase of \$215.7 million (\$159.8 million General Fund), or 7.5 percent, over the revised current year. The General Fund adjustment represents an increase of 8.7 percent. Most of the increase is attributable to (1) an increase in the utilization of services by consumers, (2) a three percent rate increase for certain programs, (3) an increase of 8,345 consumers for 2006-07, and (4) an increase for RC operations.

The DDS notes certain demographics and key factors are appearing in the population, including the following:

- Significant increase in the diagnosed cases of autism, the causes of which are not fully understood.

- Over 57 percent of the RC population is under 22 years of age. It is likely that medical professionals are identifying more developmentally disabled individuals at an earlier age.
- Over 70 percent of consumers now reside in the home of a parent or guardian, as compared to only 64 percent in 1994.
- Decreases continued in the proportion of consumers living in community care settings (i.e., out-of-home placement) and State Developmental Centers. Specifically, about 13 percent of consumers now live in a community care setting compared to 18 percent in 1994.
- Hispanics remain the fastest growing segment of the population increasing from about 24 percent in 1994 to about 32 percent in 2005. Over this same period, the white segment of the population decreased from 49 percent to about 42 percent.
- Improved medical care and technology has increased life expectancies for individuals with developmental disabilities.

Summary of Governor's Key Reductions and Augmentations for Regional Centers

- **Regional Center Population and Service Utilization Update.** Of the \$215.7 million (total funds) proposed net increase in the Regional Center budget, \$115.8 million is needed to support population increases and service utilization needs. A total of 216,565 consumers are estimated for 2006-07, an increase of 8,365 consumers over the current-year.
- **Administration Intends to Negotiate New Regional Center Contract Language to Reduce the Purchase of Services for Consumers.** A decrease of \$14.3 million (\$10.6 million General Fund) is proposed in the Purchase of Services (POS) area based upon the Administration's intent to negotiate new contract language with the Regional Centers.

It is assumed that RCs would apply these new requirements at the time of an individual's program plan (IPP) development or scheduled review. Since an individual's IPP is to be reviewed no less than once every three years, the budget assumes a phased-in implementation (i.e., one-third of the population each year). As noted in the table below, full implementation would be achieved in 2008-09.

Summary of Governor's Reductions from RC Contract Language

| Fiscal Year and Cumulative Effect | Total Proposed POS Reductions Due to New Requirements | Proposed Savings in General Fund |
|-------------------------------------------------------------------------------|-------------------------------------------------------|----------------------------------|
| 2006-07 | | |
| One-third of population is reviewed. | \$14.3 million | \$10.6 million |
| 2007-08 | | |
| Continue 2006-07 savings and review next one-third of population. | \$28.6 million | \$21.1 million |
| 2008-09 | | |
| Continue 2006-07 and 2007-08 savings and review next one-third of population. | \$42.9 million | \$31.7 million |

It is unclear at this time whether the DDS has existing legal authority to administratively enact all of their proposed changes through contract language, or if statutory changes are needed for some portion of them. It should be noted that the Legislature has rejected similar Administrative proposals for the past four years.

The DDS states that their proposed contract changes would address the following:

- Requiring the use of the least costly vendor who will meet the consumer's needs;
- Clarifying parents' responsibility for purchasing services;
- Specifying the use of group services deemed to be less costly, as opposed to individual services, if the consumer's needs can otherwise be met;
- Establishing a maximum expenditure level for Supported Living services for an individual consumer; and
- Requiring Regional Centers to annually inform consumers and families of the services purchased on their behalf.

The budget includes a corresponding increase of \$7.6 million General Fund to expand Regional Centers' Operations related to controlling the POS expenditures. Specifically, \$6 million of this augmentation would be used to hire 65 positions and the remaining amount would be used for related administrative purposes, including office rent and mediation services for dispute resolution.

- **Three Percent Rate Adjustment for Certain Providers.** A total of \$67.8 million (\$46.1 million General Fund) is proposed to provide a 3 percent rate increase for certain programs, including Community Care Facilities, Day Programs, habilitation services programs, respite agencies, voucher respite programs, supported-living, transportation and look-alike Day Programs. These programs have been subject to provider rate freezes for several years.

The table below displays each of the categories of service that would receive the three percent rate increase. Further, the DDS is proposing trailer bill language which would limit any rate increase in 2006-07 to only three percent, including those services under direct contract with RCs, unless it is necessary to protect a consumers' health or safety.

| Purchase of Services Provider Category | Total Cost of 3 Percent Rate Increase (2006-07) | General Fund Amount (2006-07) |
|---------------------------------------------------|----------------------------------------------------------------|----------------------------------------------|
| Community Care Facilities | \$23.8 million | \$14.1 million |
| Day Programs | \$23.6 million | \$14.3 million |
| Habilitation Services | \$3.7 million | \$2.9 million |
| Transportation | \$5.4 million | \$4.2 million |
| Supported Living | \$7 million | \$4.2 million |
| Look-Alike Day Programs | \$4.8 million | \$3.5 million |
| In-Home Respite | \$3.6 million | \$2.9 million |
| Total | \$67.8 million | \$46.1 million |

- **Agnews Developmental Center Closure Continuation.** As required by statute, the Administration has provided the Legislature with an update on their plan for the closure of Agnews Developmental Center. In the plan, the Administration states that achieving the closure date of June 30, 2007 is contingent upon the Administration's ability to implement three key components—increased community housing, new service models, and the use of state employees in the community. Many of these components, such as those contained in AB 2100 and SB 962 are in transition since many implementation steps are in process. Therefore, adjustments to the closure plan are expected at the Governor's May Revision.

The budget reflects adjustments that are consistent with the updated plan (dated January 10, 2006). It is assumed that an average of 126 consumers will be residing at Agnews as of July 1, 2006 and that all of these consumers will be transitioned to either the community or to another Developmental Center (DC) by June 30, 2007. For purposes of developing the budget, the Administration assumes that 50 of the remaining 126 consumers transfer to another DC.

The budget proposes a net increase of \$23.5 million (total funds) over the revised current year for the closure of Agnews. This consists of a decrease of \$6 million (total funds) in the Developmental Centers to reflect the decline in the resident population, and an increase of \$29.5 million (total funds) for the Regional Centers. The adjustment in the Regional Centers is to provide for the placement and transition of Agnews residents into the community and the use of state employees from Agnews to provide services in the community.

The net increase of \$23.5 million (\$15.9 million General Fund) for 2006-07 includes the following key adjustments:

- Reduces the Agnews Developmental Center baseline budget by \$12.6 million (total funds) for total expenditures of \$79.8 million in 2006-07.
- Provides \$9.2 million (total funds) to fund 100 state employees from Agnews to work with consumers in community-settings. This reflects an increase of \$6.9 million (total funds) over the revised current year.
- Provides a total of \$42.1 million (total funds) for the RCs, including expenditures for the Purchase of Services and Operations, for community placement purposes, including program start-up, and consumer assessment and placement. This reflects an increase of \$17.9 million (total funds) over the revised current year.
- Provides a total of \$6.6 million (total funds) for other DC staff expenditures related to staff transition and training, consumer escort and assistance, and other related closure activities.
- Reduces by \$13.2 million (total funds) to account for placements into the community. Most of these savings are attributable to reduced state staffing costs due to the closure.
- Reduces by \$2.2 million (total funds) to capture the difference in costs of consumers living at Agnews and being transferred to another Developmental Center. This reflects the fact that Agnew's residential costs are higher than any other Developmental Center.

- Provides an increase of \$365,000 for the preparation of Sonoma Developmental Center to receive up to 50 consumers from Agnews.
- Provides an increase of \$525,000 for costs associated with relocating up to 50 consumers to other DCs (i.e., not Sonoma).

As required by statute, the DDS will be providing the Legislature with another Agnews plan update on May 15, 2006. This plan should correspond to any Governor's May Revision adjustments.

- **Autistic Spectrum Disorder Initiative.** An increase of \$2.6 million (General Fund) is proposed to fund resources in the Regional Centers to better meet the needs of consumers with Autistic Spectrum Disorders (ASD). Specifically, these funds are to be used to: (1) hire an ASD program coordinator and a clinical specialist within each Regional Center; (2) develop best practice guidelines for treatment and intervention; (3) establish state and regional ASD resource centers; and (4) provide training to clinicians and other professionals to implement best practices. An increase of \$87,000 (General Fund) is also proposed to fund a position at the Department of Developmental Services.
- **Delays in Department of Health Services Certification of Intermediate Care Facilities.** Due to delays by the Department of Health Services (DHS) in licensing and certifying Intermediate Care Facilities for the Developmentally Disabled (ICF-DD), the DDS must utilize General Fund resources to fully support these services which are otherwise funded using 50 percent federal funds from the Medi-Cal Program. As such, an increase of \$4 million (General Fund) is proposed to fund the gap in timing until the DHS conducts the necessary surveys in order for the state to then draw federal Medicaid funds.
- **California Developmental Disabilities Information System (CADDIS).** The CADDIS is an integrated case management and fiscal accounting system that is being implemented by the RCs at the direction of the DDS. This new system is needed in order to enhance the receipt of federal funds, as well as to obtain more accurate and necessary consumer data regarding needs and services.

The target date for implementation had been June 2004. However, this date has been pushed back by the Administration on several occasions, costing the state over \$30 million in lost federal fund support and General Fund savings. The Administration notes that this \$20 million (General Fund) to-date information project is currently under review and its completion status is unknown. It is contended that any necessary adjustments will be provided at the Governor's May Revision.

- **Self Directed Services Model.** As established in statute, the Self Directed Services Model enables consumers to be in control of their services and to manage a finite amount of funds allocated to an individual budget in order to pay for services specified in the consumer's Individual Program Plan (IPP). Under the model, enrollment of up to 9,380 consumers will be phased-in over five years. The budget assumes enrollment of participants beginning November 1, 2006 and that 800 consumers will be enrolled by the end of the first year. It is assumed that savings of \$205,000 (total funds) will be obtained in 2006-07 through implementation of this model.

Highlights for the State Developmental Centers

Background. The DDS operates five Developmental Centers (DCs)—Agnews, Fairview, Lanterman, Porterville and Sonoma. Porterville is unique in that it provides forensic services in a secure setting. In addition, the department leases Sierra Vista, a 54-bed facility located in Yuba City, and Canyon Springs, a 63-bed facility located in Cathedral City. Both facilities provide services to individuals with severe behavioral challenges.

Summary of Funding and Enrollment. The revised current-year budget reflects total expenditures of \$713.3 million (\$387 million General Fund) for the DCs or a decrease of \$5 million (General Fund) over the Budget Act of 2005. Most of this decrease is due to a reduction in resident population and related costs.

The budget proposes expenditures of \$706.6 million (\$383.7 million General Fund), excluding state support, to serve 2,797 residents who reside in the state DC system. This reflects a caseload decrease of 229 residents or 7.6 percent, and a net reduction of \$6.7 million (\$3.6 million General Fund) as compared to the revised current year.

The net reduction of \$6.7 million is primarily the result of a reduction in state staff due to the continuing decline in resident population and the pending closure of Agnews Developmental Center and an increase to establish an intensive behavioral treatment residence pilot project at Porterville Developmental Center.

According to recent DDS data, the average cost per person residing at a DC is about \$228,000 annually. This figure varies across the DCs due to differences associated with resident medical and behavioral needs, overall resident population size, staffing requirements, fixed facility costs and related factors. In addition, due to the level of fixed costs at the DCs and the need to maintain minimum staffing levels, the cost per resident will continue to increase as the total resident population decreases. The table below displays the continued transition from the DC model of providing services to a community-based model for providing services.

| Developmental Center Residents (<i>Observed</i>) | | | |
|---------------------------------------------------------|---------------------|-------------------------------------------|-----------------------------|
| Fiscal Year | DC Residents | Yearly Difference in Residents | Percent Decrease |
| 2000-01 | 3,723 | | |
| 2001-02 | 3,628 | -95 | -2.6% |
| 2002-03 | 3,537 | -91 | -2.5% |
| 2003-04 | 3,296 | -241 | -6.8% |
| 2004-05 | 3,096 | -200 | -6.1% |
| 2005-06 (Est) | 3,026 | -70 | -2.3% |
| (Proposed) 2006-07 | 2,671 | -355 | -11.7% |

Summary of Governor's Key Reductions and Augmentations for Developmental Centers

- **Developmental Center Resident Population.** A reduction of \$17.3 million (\$9.6 million General Fund) and 242 state positions is proposed to reflect a projected decline of 229

residents in the Developmental Center system (from 3,016 residents in 2005-06 to 2,797 residents in 2006-07).

Agnews Developmental Center Closure Continuation. See discussion under Regional Centers.

- **Proposed Changes to the Office of Protective Services.** The DDS proposes to restructure the Office of Protective Services which provides law enforcement services in the DCs and community facilities, including police, security, fire protection and investigations that protect consumers, employees and the public from harm. The DDS states that their proposed changes are intended to address concerns raised by the Department of Justice, as well as needs they have internally identified.

The budget proposes (1) an increase of \$660,000 (\$380,000 General Fund) to support 81 new positions at the DCs; (2) an increase of \$752,000 (\$452,000 General Fund) to support 6 new positions at DDS headquarters to develop and implement policies, training and management functions; and (3) trailer bill legislation to authorize two positions at DDS headquarters as peace officers.

- **Porterville Developmental Center Intensive Behavioral Treatment Residence.** An increase of \$1.2 million (General Fund) is proposed to fund 14 new positions to establish an intensive behavioral treatment residence at Porterville. This residence would be used to secure up to 30 consumers deemed to be dangerous from the rest of the secured treatment program population.
- **Worker's Compensation Savings.** A reduction of \$4.9 million (\$2.8 million General Fund) is reflected due to significant decreases in worker's compensation claims.

4440 Department of Mental Health

Background. The Department of Mental Health (DMH) administers state and federal statutes pertaining to mental health treatment programs. The department directly administers the operation of five State Hospitals—Atascadero, Coalinga, Metropolitan, Napa and Patton, and acute psychiatric programs at the California Medical Facility in Vacaville and the Salinas Valley State Prison. The department provides hospital services to civilly committed patients under contract with County Mental Health Plans (County MHPs) while judicially committed patients are treated solely using state funds.

Though the department sets overall policy for the delivery of mental health services, counties (i.e., County Mental Health Plans) have the primary funding and programmatic responsibility for the majority of local mental health programs as prescribed by State-Local Realignment statutes enacted in 1991 and 1992.

Specifically counties are responsible for: (1) all mental health treatment services provided to low-income, uninsured individuals with severe mental illness, within the resources made available; (2) implementation of the Mental Health Services Act of 2004; (3) the Medi-Cal Mental Health Managed Care Program; (4) the Early Periodic Screening Diagnosis and Testing

(EPSDT) Program for adolescents; and (5) necessary mental health treatment services for individuals enrolled in other programs, including special education, CalWORKs, and Healthy Families.

Governor's Budget. The budget proposes expenditures of \$3.4 billion (\$1.6 billion General Fund) for mental health services, an increase of \$316.4 million General Fund and 475.8 positions from the revised current-year budget. This General Fund increase is the net result of significant adjustments in the State Hospital budget, the transfer of General Fund support from the Department of Health Services to the Department of Mental Health for the Early and Periodic Screening, Diagnosis and Treatment Program, and the removal of funds used to support AB 3632 special education students who need mental health services.

In addition to the above expenditures, the DMH is also proposing capital outlay expenditures of \$42.6 million (\$41.6 million Public Building Construction Fund and \$947,000 General Fund).

Further, it is estimated that almost \$1.2 billion will be available in the Mental Health Subaccount (County Realignment Funds) which does not directly flow through the state budget. Counties use these revenues to provide necessary mental health care services to Medi-Cal recipients, as well as indigent individuals. The total amount reflects an increase of \$23.6 million (County Realignment Funds), or about two percent over the anticipated current-year level.

| Summary of Expenditures | | | | |
|---------------------------------------|--------------------|--------------------|-------------------|-------------|
| (dollars in thousands) | 2005-06 | 2006-07 | \$ Change | % Change |
| Program Source | | | | |
| Community Services Program | \$2,576,579 | \$2,450,152 | -\$126,427 | -4.9 |
| Long Term Care Services | \$920,084 | \$993,799 | \$73,715 | 8.0 |
| State Mandated Local Programs | \$120,000 | \$0 | -\$120,000 | -100.0 |
| Total, Program Source | \$3,616,663 | \$3,443,951 | \$172,712 | -4.8 |
| Funding Source | | | | |
| General Fund | \$1,272,519 | \$1,588,959 | \$316,440 | 25.0 |
| General Fund, Proposition 98 | \$13,400 | \$13,400 | 0 | 0 |
| Mental Health Services Fund (Prop 63) | \$665,663 | \$663,913 | -\$1,750 | -0.2 |
| Federal Funds | \$63,141 | \$63,199 | \$58 | -0.09 |
| Reimbursements | \$1,600,694 | \$1,112,776 | -\$487,918 | -30.5 |
| Traumatic Brain Injury Fund | \$1,150 | \$1,207 | \$57 | 5.0 |
| CA State Lottery Education Fund | \$96 | \$96 | 0 | 0 |
| Licensing & Certification Fund | -- | \$401 | \$401 | 100 |
| Total Department | \$3,616,663 | \$3,443,951 | -\$172,712 | -4.8 |

Highlights for Community-Based Mental Health Services

Summary of Funding for Community-Based Mental Health Services. The budget proposes expenditures of \$2.4 billion (total funds) for community-based local assistance, including the Mental Health Services Act funding, Medi-Cal Mental Health Managed Care, Early Periodic Screening Diagnosis and Treatment (EPSDT) Program, applicable state support, the Conditional Release Program and related community-based programs.

This reflects a *net* decrease of \$126.4 million (total funds) compared to the revised current-year. This net decrease is primarily due to (1) a net decrease of \$100.6 million in the EPSDT Program as discussed below, (2) elimination of AB 3632 special education mental health funding from the DMH budget, and (3) technical adjustments to the Mental Health Services Act funding.

County Realignment Revenues. It is estimated that almost \$1.2 billion will be available in the Mental Health Subaccount (County Realignment Funds) which does not directly flow through the state budget. The total amount reflects an increase of \$23.6 million (County Realignment Funds), or about two percent over the anticipated current-year level.

Realignment revenues deposited in the Mental Health Subaccount, as established by formula outlined in statute, are distributed to counties until each county receives funds equal to the previous year's total. Any realignment revenues above that amount are placed into a growth account. The first claim on the distribution of growth funds are caseload-driven social services programs. Any remaining growth (i.e., "general" growth) in revenues are then distributed according to a formula in statute.

Summary of Governor's Reductions and Augmentations for Community Mental Health

- **Mental Health Services Act (Proposition 63).** In November 2004, voters approved this proposition provides a dedicated funding source for public mental health services from the personal income tax revenues of individuals whose adjusted gross income exceeds \$1 million annually.

The total resources available in the Mental Health Services Account are \$920.1 million for 2005-06 and \$942.7 million for 2006-07. Of this amount, the budget proposes appropriations for local assistance of \$648.8 million for 2005-06 and \$655.5 million for 2006-07. A report from the DMH regarding the current implementation of the Act will be forthcoming shortly. The Mental Health Services Account is a special fund which is continuously appropriated and therefore is not contingent upon an annual Budget Act appropriation.

- **Mental Health Services to Special Education Pupils (AB 3632).** The budget continues to provide \$100 million in special education funding within the Department of Education for mental health services to special education pupils as required by the federal Individuals with Disabilities Education Act (IDEA). In addition, the budget includes \$50 million (General Fund) as a set-aside in the Commission on State Mandates budget for categorical program funds for mental health services provided to these students that are beyond those required under the IDEA. Discussions with constituency groups regarding how this proposed new categorical program will be constructed need to occur.
- **Early and Periodic Screening and Treatment (EPSDT) Program.** The budget proposes a series of adjustments resulting in total expenditures of \$714.4 million (\$363.5 million General Fund). Specifically, the key adjustments are as follows:
 - Transfers the General Fund portion of the base program from the Department of Health Services to the DMH. This action will align expenditures within one department;
 - Eliminates one-time only funding provided in 2005-06 for the final cost settlement amount of \$139.4 million (total funds) provided for 2002-03;
 - Increases by \$38.8 million (total funds) due to more participants and service utilization; and
 - Increases by \$19.1 million (\$8.4 million General Fund) to correct for audit adjustments and recoupments.
- **Mental Health Managed Care Program.** A total of \$453.8 million (\$231.5 million General Fund) is proposed for 2006-07 which reflects an increase of \$8.6 million (\$4.3 million General Fund) over the current year. Most of this increase is attributable to additional caseload. It should be noted that the Governor did not provide a medical cost-of-living-adjustment as permitted in statute. The last time this adjustment was provided was in the Budget Act of 2000.
- **Licensing and Certification Changes.** As part of the Health and Human Services Agency initiative, the DMH is requesting an increase of \$420,000 to support five new positions to expand their licensing and certification functions related to mental health facilities. To support these functions, the Governor is proposing trailer bill legislation to begin collecting

fees from Psychiatric Health Facilities and Mental Health Rehabilitation Centers. Additional trailer bill language is being proposed to (1) require a probationary period for new licensees, (2) charge increased fees for follow-up licensing visits related to facility corrective action plans, and (3) modify statute to incorporate concerns regarding criminal background checks and other law enforcement issues.

Highlights for the State Hospitals

Summary of Funding for the State Hospitals. Total expenditures of \$958.4 million (\$876.4 million General Fund) and 9,714 positions are proposed to operate the five State Hospitals that serve a total population of 5,830 patients.

Over 91 percent of the patients are admitted under a penal code-related commitment, such as Mentally Disordered Offender, Not Guilty by Reason of Insanity, Incompetent to Stand Trial, and Sexually Violent Predator. All penal code-related patients are funded exclusively with General Fund support.

Summary of Governor's Reductions and Augmentations for the State Hospitals

- **State Hospitals and the Federal Civil Rights of Institutionalized Persons Act (CRIPA).** Due to significant concerns expressed by the federal government with the operation of the State Hospitals, substantial changes are being proposed by the Administration. The budget proposes an increase of \$43.5 million (\$37.8 million General Fund) and 432 additional positions to address the requirements of CRIPA and to implement a recovery-oriented treatment system.

Under the proposed recovery-oriented treatment system, State Hospitals would focus on the functional skills desired and necessary to live successfully after discharge, provide treatment, rehabilitation and supports to develop these skills and address the patient's psychiatric and psychological concerns.

- **Salinas Valley Psychiatric Program Expansion of Level IV Licensed Beds.** An increase of \$7 million (General Fund) is requested to fund 66 positions to support the expansion of 36 Level IV beds within the Salinas Valley Psychiatric Program in Soledad. This increase is consistent with the plan submitted to the federal court by the Department of Corrections and Rehabilitation regarding the Coleman lawsuit. This would bring the total number of Level IV beds at Salinas to 100. The additional 36 beds are to be operational by May 2006. A current-year deficiency for this activation was approved by the Joint Legislative Budget Committee in November 2005.

HUMAN SERVICES

4140 Office of Statewide Health Planning and Development

The Office of Statewide Health Planning and Development (OSHPD) develops plans, policies, and programs to assist health care delivery systems. OSHPD has four major program areas: (1) healthcare cost and quality analysis; (2) healthcare workforce development; (3) facility/hospital development, including Cal-Mortgage Loan Insurance; and (4) health care information. Total funding for OSHPD increases by \$5.2 million (8 percent).

| Summary of Expenditures (dollars in thousands) | 2005-06 | 2006-07 | \$ Change | % Change |
|---------------------------------------------------|----------|----------|-----------|----------|
| General Fund | \$5,105 | \$5,088 | -\$17 | -0.3 |
| Federal Trust Fund | 1,239 | 1,235 | -4 | -0.3 |
| Special Funds | 57,028 | 62,704 | 5,676 | 10.0 |
| Reimbursements | 1,986 | 1,549 | -437 | -22.0 |
| Total | \$65,358 | \$70,576 | \$5,218 | 8.0 |

Highlights

- **Continue Logbook Redesign Project.** The budget requests \$2.8 million Hospital Building Fund and one new position to procure a replacement automation system for its Logbook Database System. This system is used by OSHPD's Facilities Development Division (FDD) to track health facility construction projects through plan review and construction. Logbook also contains modules to track health facility compliance with SB 1953 and facilitate emergency operations in the event of a natural disaster.
- **Transfer Steven M. Thompson Physician Corps Loan Repayment Program.** The budget requests \$2 million and the establishment of 1.5 position to transfer the Steven M. Thompson Physician Corps Loan Repayment Program (formerly known as the California Physician Corps Program) from the California Medical Board to the Health Professions Education Foundation (HPEF), pursuant to AB 920 (Aghazarian), Ch. 317/2005. Funding for this program is provided through the Contingent Fund of the Medical Board of California.
- **Expand Registered Nurse Education Program.** The budget requests \$117,000 for the Registered Nurse Education Fund and the redirection of 0.6 position to administer nurse educator scholarships and loan repayment, pursuant to AB 702 (Koretz), Ch. 611/2005. The legislation authorized the expansion of the existing Registered Nurse Education Program (RNEP) to provide financial assistance to students who are seeking a master's or doctoral degree in nursing. The RNEP currently provides financial assistance for education costs of

registered nurses or graduates of associate degree nursing programs who agree to serve in underrepresented areas.

4170 California Department of Aging

The California Department of Aging (CDA) is the state agency designated to coordinate resources to meet the long term care needs of older individuals, to administer the federal Older Americans Act and the State Older Californians Act, and to work with Area Agencies on Aging to serve elderly and functionally impaired Californians. The department provides services under: (1) Senior Nutrition Services; (2) Senior Community Employment Services; (3) Supportive Services and Centers; and (4) Special Projects. The budget proposes \$194.7 million for 2006-07, a 0.4 percent increase over the current year.

| Summary of Expenditures | | | | |
|--------------------------------|------------------|------------------|--------------|------------|
| (dollars in thousands) | 2005-06 | 2006-07 | \$ Change | % Change |
| General Fund | \$35,350 | \$35,560 | \$210 | 0.6 |
| State HICAP Fund | 2,447 | 2,454 | 7 | 0.3 |
| Federal Trust Fund | 146,531 | 146,617 | 86 | 0.1 |
| Special Deposit Account | 1,572 | 1,572 | 0 | 0.0 |
| Reimbursements | 7,995 | 8,493 | 498 | 6.2 |
| Total | \$193,895 | \$194,696 | \$801 | 0.4 |

Highlights

- **Reform Adult Day Health Care.** The budget requests \$566,000 (\$174,000 General Fund) and 4 positions to establish post-payment reviews for Adult Day Health Care (ADHC) centers. These reviews would ensure that billed services were actually provided and were medically necessary. This request is part of an ADHC reform proposal that also includes 4 additional positions in the Department of Health Services.

4200 Department of Alcohol and Drug Programs

The Department of Alcohol and Drug Programs (DADP) provides statewide leadership and oversight for local alcohol and drug intervention, prevention, detoxification, treatment, and recovery services, including Drug Medi-Cal, Proposition 36 (the Substance Abuse and Crime Prevention Act of 2000, or SACPA), Drug Courts, and the Office of Problem Gambling. The budget proposes \$614.6 million (\$243.2 million General Fund) for 2006-07, an increase of 0.8 percent over the current year.

| Summary of Expenditures | | | | |
|--------------------------------|------------------|------------------|----------------|------------|
| (dollars in thousands) | 2005-06 | 2006-07 | \$ Change | % Change |
| Programs | | | | |
| Prevention | \$71,520 | \$70,889 | -\$631 | -0.9 |
| Treatment and Recovery | 490,750 | 496,430 | 5,680 | 1.2 |
| Perinatal | \$47,305 | \$47,321 | \$16 | 0.0 |
| Fund Source | | | | |
| General Fund | \$239,471 | \$243,187 | \$3,716 | 1.6 |
| Federal Trust Fund | 290,532 | 290,291 | -241 | -0.1 |
| Special Funds | 4,100 | 4,130 | 30 | 0.7 |
| Reimbursements | 75,472 | 77,032 | 1,560 | 2.1 |
| Total | \$609,575 | \$614,640 | \$5,065 | 0.8 |

Highlights

- **Establish Drug Medi-Cal Fraud Deterrence Program.** The budget requests \$286,000 (\$143,000 General Fund) and 3 positions to establish a Drug Medi-Cal Fraud Deterrence Program. These resources would be used to provide more consistent oversight and monitoring of Drug Medi-Cal Narcotic Treatment Program (NTP) providers that contract directly with the DADP. These positions are projected to increase Drug Medi-Cal recoupments by \$3.7 million in 2006-07.
- **Increase Drug Medi-Cal Funding and Caseload.** The budget requests \$121.1 million (\$63.2 million General Fund) for the Drug Medi-Cal program. This represents a 6 percent increase over revised current year funding, due to increased program caseload. Methadone treatment represents over 60 percent of Drug Medi-Cal expenditures.
- **Continue Funding Proposition 36 (SACPA).** The budget requests \$120 million General Fund and the one-year extension of 29.7 existing positions to continue the activities of Proposition 36 (the Substance Abuse and Crime Prevention Act of 2000, or SACPA). Of this amount, \$116.5 million would be allocated to the counties, and \$3.5 million would be used to maintain the existing state positions. The budget also calls for statutory changes to SACPA to incorporate components of the drug court model (for further details see *Issues* below).

Issues

1. **Continue Funding Proposition 36 (SACPA).** SACPA, approved by the voters on November 7, 2000, sentences non-violent drug defendants to drug treatment rather than jail or prison. SACPA continuously appropriated \$120 million General Fund annually from 2001-02 through 2005-06 to fund county drug treatment services and criminal justice supervision. Although the statutory funding requirement expires at the end of 2005-06, the sentencing provisions do not expire.

The budget proposes to maintain \$120 million General Fund for SACPA in 2006-07. If the state reduces funding for SACPA or other alcohol and drug treatment programs in 2006-07, it

will fail to meet its maintenance-of-effort (MOE) requirement for the federal Substance Abuse Prevention and Treatment (SAPT) Block Grant. Failure to meet the SAPT MOE would result in a significant reduction in federal funding for alcohol and drug treatment.

However, note that maintaining the current funding level may result in funding reductions for counties, as they have been using unspent carryover funds from their initial SACPA allocations to supplement the \$120 million annual appropriation. Actual expenditures were \$134 million in 2003-04, \$143 million in 2004-05, and an estimated \$146 million in 2005-06. Counties are expected to have little or no carryover funds after 2005-06.

The budget also requests statutory changes to align SACPA sentencing guidelines with the drug court model, including drug testing, flash incarceration, and judicial monitoring. The budget also recommends programmatic changes to ensure that offenders are matched with appropriate treatment services, such as narcotic replacement therapy and culturally competent services. Researchers at the University of California at Los Angeles (UCLA) are currently evaluating the results of SACPA, and will release a special supplemental report in April 2006 to help inform policy and funding decisions this spring.

4700 Department of Community Services and Development

The Department of Community Services and Development (DCSD) distributes federal and state funding to local entities that provide energy and weatherization assistance and a variety of other community services for low-income households. The budget proposes \$167.7 million for 2006-07, a 2.8 percent decrease compared to current year funding. The decrease is due to the expiration of one-time federal funding in 2005-06 for weatherization and energy assistance for low-income households.

| Summary of Expenditures | | | | |
|------------------------------------|------------------|------------------|-----------------|-------------|
| (dollars in thousands) | 2005-06 | 2006-07 | \$ Change | % Change |
| Programs | | | | |
| Energy Programs | \$105,848 | \$100,974 | -\$4,874 | -4.6 |
| Community Services | 65,283 | 65,243 | -40 | -0.1 |
| Naturalization Services | \$1,500 | \$1,500 | \$0 | 0.0 |
| Fund Source | | | | |
| General Fund | \$1,500 | \$1,500 | \$0 | 0.0 |
| Petroleum Violation Escrow Account | 4,049 | 0 | -4,049 | -100.0 |
| Federal Trust Fund | 164,975 | 164,110 | -865 | -0.5 |
| Reimbursements | 2,107 | 2,107 | 0 | 0.0 |
| Total | \$172,631 | \$167,717 | -\$4,914 | -2.8 |

Issues

1. **Pending Federal Budget Changes.** On or around February 1, 2006, the US House of Representatives is expected to vote on the federal fiscal year 2006 budget already approved by the Senate. While this package, called the Deficit Reduction Act of 2005, would reduce federal funding for many human services programs, it does contain a one-time augmentation for the Low-Income Home Energy Assistance Program (LIHEAP). The Legislative Analyst's Office estimates that California's share of this augmentation will be \$45 million. LIHEAP provides weatherization and energy assistance for low-income households.

5160 Department of Rehabilitation

The Department of Rehabilitation assists people with disabilities to obtain and retain employment and maximize their ability to live independently in the community. The department operates the Vocational Rehabilitation (VR) program, funded primarily with federal funds, to provide vocational services to persons with disabilities. Some of these services are provided through cooperative agreements with other state and local agencies (education, mental health, welfare). The department also provides support services for Community Rehabilitation Programs, including independent living centers. The budget proposes total funding of \$360.1 million, a 3.3 percent increase over the current year.

| Summary of Expenditures | | | | |
|------------------------------------|------------------|------------------|-----------------|------------|
| (dollars in thousands) | 2005-06 | 2006-07 | \$ Change | % Change |
| Programs | | | | |
| Vocational Rehabilitation Services | \$328,951 | \$340,237 | \$11,286 | 3.4 |
| Support of Community Facilities | 19,741 | 19,814 | 73 | 0.4 |
| Fund Source | | | | |
| General Fund | \$44,899 | \$46,991 | \$2,092 | 4.7 |
| Vending Stand Account | 3,447 | 3,478 | 31 | 0.9 |
| Mental Health Services Fund | 195 | 195 | 0 | 0.0 |
| Federal Funds | 292,251 | 301,487 | 9,236 | 3.2 |
| Reimbursements | 7,900 | 7,900 | 0 | 0.0 |
| Total | \$348,692 | \$360,051 | \$11,359 | 3.3 |

Highlights

- **Increase Vocational Rehabilitation (VR) Funding.** Budget year VR caseload is estimated to rise to 122,275 total cases, an increase of 1 percent over revised current year caseload. The budget includes a 3.4 percent increase in total VR costs, due to (1) the caseload increase; (2) cost increases for transportation, consumer goods, and personal services; and (3) a

3 percent increase for In-Plan expenditures to conform to the Department of Developmental Services job coaching rate increase.

5175 Department of Child Support Services

The Department of Child Support Services (DCSS) administers the child support enforcement program operated by local child support agencies. The Department provides state direction to assure that child support funds are collected and distributed to families, including securing child and spousal support, medical support, and determining paternity. The Department has responsibility for addressing federal fiscal sanctions related to California's failure to develop adequate automation systems for child support services. The department oversees local program and fiscal operations, administers the federal Title IV-D state plan for securing child support, and monitors state results on federal performance standards.

The budget anticipates total collections of \$2.4 billion in the budget year, an increase of 2.4 percent above the current year. The department's overall budget expenditures are proposed to increase by \$9 million, or 0.6 percent, to \$1.4 billion. The budget includes 534.2 positions for DCSS, a net increase of 19.1 positions.

| Summary of Expenditures | | | | |
|--------------------------------|-------------|-------------|-----------|----------|
| (dollars in thousands) | 2005-06 | 2006-07 | \$ Change | % Change |
| General Funds | \$513,238 | \$517,254 | \$4,016 | 0.8 |
| Federal Funds | 606,904 | 615,231 | 8,327 | 1.4 |
| Reimbursements | 123 | 123 | 0 | 0.0 |
| Child Support Collection | | | | |
| Recovery Fund | 273,032 | 269,722 | -3,310 | -1.2 |
| Total | \$1,393,297 | \$1,402,330 | \$9,033 | 0.6 |

Highlights

- Fund Federal Penalty for Child Support Automation.** The budget includes \$220 million General Fund for the anticipated September 2006 payment of the federal child support automation penalty for federal fiscal year 2006. The state has been required to pay an increasing penalty each year since 1997 due to the state's failure to implement a single statewide child support automation system. The DCSS is currently developing the California Child Support Automation System (CCSAS), which, when certified by the federal government, would allow the state to avoid future penalties. The September 2006 payment is anticipated to be the last payment the state will make. The DCSS will then request certification that the automation system is sufficiently operational to qualify for penalty relief in future federal fiscal years.
- Continue Development of CCSAS Child Support Enforcement (CSE) Component.** The CSE component of CCSAS will provide a statewide central database for case management, financial management, and interstate communication. Total funding for the CSE component is estimated to be \$141.5 million in 2006-07. The budget requests 3 new positions, and the

redirection of 10 existing DCSS positions to continue development of this system. This component is scheduled to be completed by September 2008.

- **Continue Development of CCSAS State Disbursement Unit (SDU) Component.** The SDU component of CCSAS will provide statewide collections and electronic disbursement of child support payments. In 2005-06 the SDU is being implemented in stages; several new counties are converting to the SDU each month. Total funding for the SDU component is estimated to be \$37.7 million in 2006-07. All employers and non-custodial parents are scheduled to begin sending child support payments through the centralized SDU in May or June 2006.
- **Establish Customer Support Service Center.** The budget requests \$824,000 (\$280,000 General Fund) for 13.1 new positions, and 3.5 redirected positions, to establish a statewide Customer Service Support Center. This Center would respond to telephone inquiries regarding child support cases that will be added to the SDU as it becomes operational.
- **Establish Centralized Financial Management Team.** The budget requests \$530,000 (\$180,000 General Fund) for 5.5 new positions, and 4.5 redirected positions, to establish a Centralized Financial Management Team to resolve exceptions for non-assistance child support cases that will be added to the SDU as it becomes operational. These exceptions include multiple county collection adjustments and holds, and other issues that would not be resolved by local child support agencies.
- **Extend the Compromise of Arrears Program (COAP).** The budget proposes \$520,000 (\$177,000 General Fund) to maintain 6.5 of 9 expiring limited-term positions for the COAP. This program accepts reduced lump sum settlements from non-custodial parents with arrearages in exchange for their commitment to make ongoing payments.
- **Continue Suspension of Health Insurance Incentives and Improved Performance Incentives Programs.** The budget proposes trailer bill language to continue the suspension of two programs, the Health Insurance Incentives and the Improved Performance Incentives programs, through 2006-07. The Health Insurance and the Program Improvement Incentive programs were part of the Child Support reform legislation passed in 1999. The Health Insurance Incentives program paid local child support agencies (LCSAs) \$50 for each case for which they obtained third-party health insurance coverage or insurance for child support applicants or recipients. The Improved Performance Incentives program provided the ten best performing LCSAs with 5 percent of the amount they collected on behalf of the state for public assistance payment recoupments. The funding received by the LCSAs from the Improved Performance Incentives program was required to be reinvested back into the Child Support Program. These programs were suspended for four years beginning 2002-03. The Department of Finance notes that LCSAs are required by DCSS regulations to seek third-party health insurance coverage as part of their normal business processes.

Issues

1. **Assistance Child Support Collections and Cost-Effectiveness Declining.** Although the budget anticipates that total collections will increase by 2.4 percent, assistance collections are expected to decline by 6.7 percent. Assistance collections, which have been declining since

2000-01, reflect payments from non-custodial parents that are redirected to the state and federal government to repay past welfare costs. Non-assistance collections are fully directed to custodial parents and children. In addition, as a result of flat or declining collections and increasing costs, the state's child support system continues to rank well below the national average for cost-effectiveness.

2. **Child Support Arrears Remain High.** Approximately \$19 billion in child support arrears is currently owed to families in California. An analysis conducted by the Urban Institute found that approximately \$4.8 billion of the state's arrears is collectable, including \$2.3 billion that is owed to the state for CalWORKs reimbursements. In September 2005, the DCSS sponsored an Arrears Management Roundtable, which looked at the performance of California compared to other States and examined options to reduce arrearages and increase child support collections. The Legislature may wish to review these options to reduce arrearages.
3. **Looming Federal Budget Changes.** On or around February 1, 2006, the US House of Representatives is expected to vote on the federal fiscal year 2006 budget already approved by the Senate. This package, called the Deficit Reduction Act of 2005, cuts federal funding for many programs affecting children, families, and youth, including state child support collection programs.

More specifically, this Act would prohibit state child support programs from using federal performance incentive payments to draw down matching federal funds. In 2006-07 the budget anticipates \$47 million in performance incentive payments from the federal government, plus \$94 million in matching federal funds. Should this Act be approved, \$47 million in additional General Fund spending would be required to avoid a funding reduction for the state's child support collection program.

If the state does not backfill the lost funding, the Center for Law and Social Policy (CLASP) estimates that California would lose an estimated \$827.1 million in federal funds over the next ten years, and approximately \$1.7 billion in child support payments would go uncollected during the same period. Further, CLASP estimates the state could lose as much as \$500 million in assistance collections over the next ten years (assistance collections are payments from non-custodial parents that are redirected to the state and federal government to repay past welfare costs).

In addition, this Act would assess an annual fee on the state equal to \$25 for most non-assistance child support cases. This fee would be deducted from the federal funds the state receives for program administration. The Legislative Analyst's Office (LAO) estimates that this fee would result in \$5 million in lost federal funds annually. Finally, this Act would provide federal financial participation in the \$50 income disregard for CalWORKs cases receiving child support. The state must currently reimburse the federal government for its 50 percent share of the amount passed through to the family. The LAO estimates that this would result in annual General Fund savings of \$15 million.

5180 Department of Social Services

The Department of Social Services (DSS) administers a variety of programs with four major goals: (1) provide temporary cash assistance and services to encourage low-income families with children to attain self-sufficiency by moving from welfare to permanent employment; (2) provide social services to elderly, blind, disabled and other adults and children, protecting them from abuse, neglect and exploitation, and helping families stay together and in the community; (3) regulate group homes, preschools, foster care homes, day care and residential care facilities to ensure they meet established health and safety standards; and (4) conduct disability evaluations and provide benefit payments for federal and state programs serving the aged, blind and disabled.

The budget proposes \$17.7 billion (\$8.8 billion General Fund) for the DSS, an increase of \$218 million (\$147 million General Fund). These amounts do not reflect the county share of cost for programs administered by DSS, as county funding is not included in the state Budget Act. However, the table below includes county funding to better reflect total program expenditures. The budget includes a total of 4,424 DSS positions, a net increase of 110 positions over the current year.

| Summary of Expenditures | | | | |
|--------------------------------|---------------------|---------------------|------------------|------------|
| (dollars in thousands) | 2005-06 | 2006-07 | \$ Change | % Change |
| Programs | | | | |
| CalWORKs | \$5,020,266 | \$4,906,668 | -\$113,598 | -2.3 |
| Food Stamps | 754,377 | 795,619 | 41,242 | 5.5 |
| IHSS | 3,792,572 | 3,959,618 | 167,046 | 4.4 |
| SSI/SSP | 3,505,627 | 3,563,847 | 58,220 | 1.7 |
| Foster Care | 1,714,045 | 1,711,315 | -2,730 | -0.2 |
| Child Welfare Services | 2,198,131 | 2,230,691 | 32,560 | 1.5 |
| Adoption Assistance | 712,437 | 775,116 | 62,679 | 8.8 |
| Kin-GAP | 98,098 | 100,046 | 1,948 | 2.0 |
| Other County Services | 488,577 | 456,285 | -32,292 | -6.6 |
| Community Care Licensing | 100,631 | 107,341 | 6,710 | 6.7 |
| Other State Operations | \$383,192 | \$392,636 | \$9,444 | 2.5 |
| Fund Source | | | | |
| General Fund | \$8,664,204 | \$8,810,809 | \$146,605 | 1.7 |
| Technical Assistance Fund | 23,955 | 22,200 | -1,755 | -7.3 |
| Employment Training Fund | 37,930 | 32,930 | -5,000 | -13.2 |
| Child Support Collections | | | | |
| Recovery Fund | 14,974 | 14,777 | -197 | -1.3 |
| Other Special Funds | 11,140 | 8,702 | -2,438 | -21.9 |
| Federal Funds | 6,038,561 | 6,003,002 | -35,559 | -0.6 |
| Reimbursements | 2,663,761 | 2,779,816 | 116,055 | 4.4 |
| County Funds (Non-add) | 1,313,428 | 1,326,946 | 13,518 | 1.0 |
| Total | \$18,767,953 | \$18,999,182 | \$231,229 | 1.2 |

California Work Opportunity and Responsibility to Kids (CalWORKs) Program

- **Program Description.** CalWORKs provides cash benefits and welfare-to-work services to children and their parents or caretaker relatives who meet specified eligibility criteria including having a family income below the CalWORKs minimum basic standard of adequate care, having less than \$2,000 in resources, and having a car valued at \$4,650 or less. The average family of three must have an annual net income below \$12,389, or 77 percent of the federal poverty level, to be eligible for CalWORKs. Program recipients are required to participate in welfare-to-work activities and perform a minimum of 32 hours of work or work-related activities per week to remain eligible for benefits. Adults have a lifetime limit of five years (60 months) in CalWORKs.

The DSS provides statewide oversight for the program, and counties provide or contract for enrollment, case management, employment training, substance abuse, mental health, and child care functions.

- **Enrollment Summary.** After peaking in March of 1995, CalWORKs enrollment has dropped by 48 percent through 2004. Enrollment has decreased by 33 percent since CalWORKs replaced the former Aid to Families with Dependent Children (AFDC) program in 1998. The caseload decline is due to a combination of demographic trends (such as decreasing birth rates for young women), California's economic expansion, and full implementation of welfare reform. After years of declines, enrollment flattened in 2003-04, and has remained relatively stable since then. Caseload is projected to decrease by 1.4 percent in 2005-06, and increase by 0.9 percent in 2006-07. Average monthly enrollment is estimated to be 488,000 cases in 2006-07.
- **Funding Summary.** CalWORKs is funded through an annual federal Temporary Assistance for Needy Families (TANF) block grant of \$3.7 billion, plus \$2.7 billion in state and county funds to meet a federal Maintenance of Effort (MOE) requirement. The state's MOE is based on welfare spending in 1994, adjusted downward for achievement of certain work participation goals. Federal law requires states to spend TANF funds on current and former welfare recipients, with limited exceptions. Accordingly, California spends most federal TANF funds on CalWORKs, and directs some TANF and state MOE funding to activities in other programs and departments.

The budget proposes total TANF/MOE funding of \$6.4 billion (\$4.9 billion of which will be spent on the CalWORKs program and \$1.5 billion to support non-CalWORKs federally allowable activities). This constitutes a \$111 million, or 2.2 percent, decrease in CalWORKs expenditures from the current year. Note also that the Administration is proposing a \$32 million decrease in CalWORKs funding in the current year.

CalWORKs Highlights

The budget does not propose any changes to eligibility, work requirements, or grants for CalWORKs clients. However, the budget does propose significant reductions to funding for counties and tribal entities for CalWORKs employment services, eligibility determination, and child care. These reductions would occur in both the current year and the budget year.

- **Scale Back Welfare Reform Results.** The 2004-05 Budget Act strengthened client work participation requirements, in order to increase the state's work participation rate. However, in recent years, the CalWORKs work participation rate has been gradually declining. The budget assumes that the program reforms established in the 2004-05 Budget Act will have a minimal effect in 2005-06, and that \$147 million in anticipated grant savings due to increased work hours will not materialize. The Administration also indicates that it will reduce the current year allocation to counties for child care funding by \$113 million, as it anticipates this funding will be unspent due to lower than anticipated work hours. The budget anticipates that welfare reforms will have a moderate impact in 2006-07. Counties have expressed concern that scaling back fiscal estimates for the Welfare Reform and Pay for Performance initiatives is premature. Counties also suggest that making a significant current year reduction in funding for CalWORKs child care prevents effective program management, and destabilizes local CalWORKs programs.
- **Delay Pay for Performance.** The 2005-06 Budget Act established performance measures for the CalWORKs program, and provided a \$30 million TANF set-aside for 2006-07 to provide payments to counties that meet performance goals for work participation and client income measures. Although the 2005-06 Budget Act included \$22 million in CalWORKs grant savings as a result of this program, the Administration now proposes to reduce that savings and delay implementation of Pay for Performance due to the delay in welfare reform described above. The budget eliminates the \$30 million set-aside in TANF reserve for county performance payments in 2006-07.
- **Prospective Budgeting/Quarterly Reporting (CalWORKs and Food Stamps).** The 2002-03 Budget Act shifted the routine eligibility review period for CalWORKs and Food Stamp clients from monthly to quarterly reporting. This change was intended to reduce the Food Stamp error rate. Counties transitioned to prospective budgeting between November 2003 and June 2004. This change was expected to result in grant increases and eligibility determination savings due to fewer reported income changes. However, counties have indicated that eligibility savings are less than previously estimated, primarily due to the time needed to process mid-quarter change reports.

The 2005-06 Budget Bill approved by the Legislature reduced the Food Stamp eligibility determination savings for quarterly reporting by \$23.7 million (\$10 million General Fund), and applied \$50 million in unspent 2004-05 CalWORKs funding to offset CalWORKs eligibility savings. However, the Governor vetoed the Food Stamp eligibility funding increase, and vetoed \$25 million of the \$50 million CalWORKs eligibility funding increase, indicating DSS would work with counties to determine the true impact of quarterly reporting requirements.

The 2006-07 budget reflects only natural caseload adjustments for Food Stamp eligibility costs, and, despite the Governor's veto message, does not modify the previous assumptions for quarterly reporting. For CalWORKs eligibility, the budget maintains the \$25 million eligibility funding increase through 2006-07, and indicates the DSS will complete an eight county time study to validate the actual time required to complete quarterly reporting and prospective budgeting activities. The budget also reduces CalWORKs grant costs by

\$42 million in the current and budget years, based on updated caseload data for quarterly reporting.

- **Reduce CalWORKs Single Allocation.** The budget reduces \$40 million in funding to counties for CalWORKs employment and other services, eligibility determination, and child care in 2006-07.
- **Reduce Tribal TANF Current Year Funding.** The budget reduces current year funding for Tribal TANF programs by \$13 million (23 percent) to reflect revised implementation dates and caseload.
- **Support Tribal TANF, Tribal Child Welfare, and Indian Child Welfare Act (ICWA).** The budget requests \$223,000 (\$51,000 General Fund) to establish 2 positions to support Tribal TANF and child welfare programs, as well as ICWA. An increasing number of Native American Tribes or Tribal consortia have established Tribal TANF programs in recent years, and some Tribes have also expressed interest in establishing their own Tribal Child Welfare programs. In addition, due to the complexity of ICWA, additional information and support for local entities may be needed to ensure consistent ICWA compliance. Note that the Legislature approved the establishment of 1.0 DSS position for ICWA compliance in the 2005-06 budget bill, but the Governor vetoed that position.
- **Use TANF to Backfill Federal Disallowance for Child Welfare Services (CWS).** The budget proposes to shift a combined total of \$58 million in current and budget year TANF funding from CalWORKs to CWS - Emergency Assistance Program, to backfill a federal funding disallowance in CWS. For further information, please see Children and Family Services Highlights below.
- **Hurricane Katrina Costs.** The budget requests \$8.5 million (\$7.3 million TANF/MOE/General Fund) in the current year and \$4.9 million (\$3.4 million TANF/MOE/General Fund) in the budget year for services and grants provided in California to evacuees from Hurricane Katrina under the CalWORKs, Food Stamps, IHSS, and SSI/SSP programs. The budget does not anticipate that the federal government will reimburse the state for these costs.

CalWORKs Issues

1. **Looming Federal Budget Changes.** On or around February 1, 2006, the US House of Representatives is expected to vote on the federal fiscal year 2006 budget already approved by the Senate. This package, called the Deficit Reduction Act of 2005, would effectively increase the state's work participation rate to 50 percent for all CalWORKs cases, and 90 percent for two-parent cases. The state's work participation rates are currently 23 percent for all cases and 32 percent for two-parent cases. The new work participation rate requirements would be effective October 1, 2006.

California will face large costs to increase participation in work activities to meet the new requirements, and will still be at great risk of being penalized. The Center for Law and Social Policy estimates that the cost of increasing participation in work activities to meet the

new requirements in California could exceed \$400 million in 2007, and be in the range of \$2 billion for the state for the next five years if the state's caseload does not fall. If the state fails to meet the work participation rate requirements, it is subject to a penalty equal to a 5 percent reduction in the federal TANF grant, or \$185 million. This penalty increases each year, to a maximum of 21 percent. In addition, the state would be required to backfill the federal penalty with General Fund resources, and increase MOE spending by 5 percent, or \$180 million. The Act also increases funding for child care, and California's share is estimated to be approximately \$25 million per year.

2. **October 2003 COLA.** From 2000-01 through 2003-04, statute authorized an additional CalWORKs COLA in October of each year so long as Vehicle License Fee (VLF) tax relief was also implemented. Governor Davis suspended the VLF tax relief in June 2003, which triggered the suspension of the October 2003 CalWORKs COLA. However, Governor Schwarzenegger rolled back the VLF tax increase and did not restore funding for the October 2003 COLA. A court ruling in 2004 found that the October 2003 COLA was required, but the Administration is appealing the ruling, and funding for the COLA was not included in the budget. Funding this COLA would result in cumulative costs of \$335.6 million through June 2006 for retroactive payments, and \$122 million in ongoing annual costs.

Food Stamps Program

- **Program Description.** The Food Stamps program provides food benefits via Electronic Benefit Transfer (EBT) cards to eligible low-income families and individuals. The DSS provides statewide oversight, and counties perform eligibility determination and employment services functions. Families eligible for CalWORKs are automatically eligible for Food Stamp benefits. Low-income working families and individuals are also eligible for Food Stamp benefits, even if they have not enrolled in the CalWORKs program.
- **Enrollment Summary.** The department estimates that average monthly Food Stamp caseload in 2006-07 will be 2.2 million persons, a 5.5 percent increase over 2005-06. Approximately 62 percent of these beneficiaries are not receiving cash assistance. The proportion of "non-assistance" Food Stamp caseload in the program has grown significantly in recent years, and increased enrollment among non-assistance households has been the driving factor in overall program growth since 2000-01.
- **Funding Summary.** Food Stamp benefits are funded entirely by federal funds. These funds are not included in the state budget, as the U.S. Department of Agriculture provides funding for food directly to beneficiaries via EBT cards. Californians are estimated to receive approximately \$2.3 billion in federal Food Stamp benefits in 2006-07. The federal government also funds 50 percent of the program's eligibility determination and administrative costs. The remaining 50 percent is split between the state and counties at a ratio of 70 percent to 30 percent, respectively. The budget anticipates that funding for county activities will be \$773.5 million (\$287 million General Fund), an increase of \$39.9 million (\$15.9 million General Fund) compared to the current year, due to increasing caseload.

The state also administers the California Food Assistance Program (CFAP), a state-only food stamp program for legal non-citizens. Total funding for benefits and eligibility costs is

estimated to be \$22.1 million General Fund in 2006-07, to provide benefits to 21,600 beneficiaries.

Food Stamp Budget Highlights

- **Food Stamp Simplification Options Delayed.** The 2005-06 Budget Act included funding to implement optional federal provisions to simplify the Food Stamp eligibility determination process, effective January 1, 2006. The budget indicates that implementation of these options has been delayed by nine months, to October 2006. Certain eligibility requirements will be aligned with CalWORKs, and a mandatory Standard Utility Allowance (SUA) will be implemented.
- **Prospective Budgeting/Quarterly Reporting for Food Stamps.** Please see discussion of this issue in CalWORKs section above.

Supplemental Security Income/State Supplementary Program (SSI/SSP) and Cash Assistance Program for Immigrants (CAPI)

- **Program Description.** The SSI/SSP program provides cash grants to persons who are elderly, blind and/or too disabled to work and who meet the program's federal income and resource requirements. Beneficiary grants generally reflect the maximum grant less any offsetting personal income. Individuals who receive SSI/SSP are categorically eligible for the Aged, Blind or Disabled Medi-Cal Program with no share of cost, for the In-Home Supportive Services Program, and may be eligible for other programs designed to support individuals living in the community.

The SSI/SSP program is administered by the federal Social Security Administration. The Social Security Administration determines eligibility, computes grants, and disburses monthly payments to recipients.

SSI/SSP grant levels vary based on a recipient's living arrangement, marital status, minor status and whether she or he is aged, blind or disabled. There are over twenty different SSI/SSP payment standards. Both the federal and state grant payments for SSI/SSP recipients are adjusted for inflation each January through Cost-of-Living-Adjustments (COLAs). Federal law provides an annual SSI COLA based on the Consumer Price Index, and state law provides an annual SSP COLA based on the California Necessities Index. As of April 2006, the maximum grant will be \$836 per month for an aged or disabled individual living independently and \$1,472 per month for an aged or disabled couple living independently.

The CAPI program was established in 1997 to provide cash benefits to aged, blind and disabled legal immigrants who became ineligible for SSI as a result of welfare reform. This state-funded program is overseen by the DSS and administered locally by counties. CAPI grants are \$10 less than SSI/SSP grants for individuals and \$20 less than SSI/SSP grants for couples.

- **Enrollment Summary.** The budget projects SSI/SSP average monthly enrollment will grow by 2.4 percent, from 1,212,000 in 2005-06 to 1,241,000 in 2006-07. Approximately

8 percent of recipients are under age 18, 49 percent are age 18 to 64, and 43 percent are age 65 and older. CAPI caseload is projected to decrease by 2.8 percent in 2006-07, to 7,817 average monthly recipients.

- **Funding Summary.** SSI/SSP grants have two components: the SSI component, which is federally funded, and the SSP component, which is state funded. Total funding for SSI/SSP is estimated to be \$8.5 billion (\$3.4 billion General Fund) in 2005-06, and \$8.9 billion (\$3.5 billion General Fund) in 2006-07. General Fund expenditures are projected to increase by 1.8 percent, to reflect an increase in caseload, offset by savings from extending the delay of the 2007 federal COLA. The federal funds in the SSI portion of the grant are not included in the state budget, as they are federally administered. Total funding for the CAPI program is estimated to be \$77.3 million General Fund in 2005-06 and \$75.5 million General Fund in 2006-07.

SSI/SSP Highlights

- **Delay 2007 Federal SSI COLA.** The budget proposes to delay the 2007 federal SSI COLA an additional fifteen months, from April 2007 to July 2008. This would result in new General Fund savings of \$54 million in 2006-07 and \$215 million in 2007-08.

The 2005 Budget Act suspended the state SSP COLA for 2006 and 2007, and delayed the federal SSI COLA for three months in each of those years. The three month delay of the 2007 SSI COLA in current statute results in savings of \$54 million General Fund in 2006-07. The additional delay proposed in the Governor's Budget would result in additional General Fund savings of \$54 million in 2006-07. Under the Governor's Budget proposal, the maximum SSI/SSP grant in 2007 would remain at the April 2006 level, which is \$836 for individuals and \$1,472 for a couple.

The 2007 federal COLA proposed for delay would have increased the maximum grant for an individual by approximately \$16 to \$852 per month, and would have increased the maximum grant for a couple by approximately \$24 to \$1,496 per month. Even if that scheduled increase were provided, grant levels will not keep pace with inflation due to the suspension of the 2004, 2006, and 2007 SSP COLAs and the three month delay of the 2006 and 2007 SSI COLAs. An additional fifteen month delay of the 2007 SSI COLA would further erode the ability of grant payments to keep pace with cost of living increases, such as rising food, housing, and transportation costs.

California's SSI/SSP beneficiaries are ineligible for Food Stamps benefits and depend on their grants to pay for rent, food, clothing, and other necessities. They spend most of their grants on rent and utilities. According to the U.S Department of Housing and Urban Development, fair market rents for a studio apartment in California average \$805 per month and range from \$389 in Siskiyou County to \$1,042 in Ventura County. The fair market rent for a studio apartment exceeds the SSI/SSP grant in 9 counties, and exceeds 50 percent of the grant in all but two counties. Since 1990, rent prices have increased by 36 percent and the SSI/SSP purchasing power has declined by 17 percent. Without the COLA, beneficiaries will face additional pressure to reduce spending on food or utilities as housing costs increase.

- **Extend Deeming Period for CAPI.** The budget proposes to extend the deeming period for CAPI from ten to fifteen years for immigrants who entered the country on or after August 22, 1996. During the deeming period, the income and resources of the person sponsoring the noncitizen are taken into account when determining benefit eligibility. This five year extension results in General Fund savings (cost avoidance) of \$12.5 million in 2006-07 and \$40 million in 2007-08.

Federal law limits SSI/SSP benefits for legal immigrants to aged and/or disabled persons who were on aid before August 22, 1996, or who were in the country prior to August 22, 1996 and subsequently become disabled. In response, California created the CAPI program in 1998, to provide state-only SSI/SSP benefits to elderly legal immigrants who lived in the U.S. prior to August 1996, and some immigrants who entered after August 1996 and whose sponsors are dead, disabled or abusive. These individuals are eligible for the “base” CAPI program.

The “extended” CAPI program was established in 1999 to include all immigrants arriving after August 1996 with no sponsor or with a low-income sponsor. Extended CAPI applicants are currently subject to a ten year deeming period, which means for ten years after entering the country, both the applicant and sponsor’s income and resources are counted when determining CAPI eligibility (unless the sponsor is dead, disabled or abusive).

The ten year deeming period will begin to expire for some extended CAPI beneficiaries and applicants as soon as August 22, 2006. Under current law, the DSS estimates that an additional 250 individuals would become eligible for CAPI each month beginning in September 2006. The Governor’s Budget proposal would require a sponsor’s income and resources to continue to be considered for another five years, preventing 2,500 applicants from qualifying for CAPI in 2006-07, and 3,000 applicants from qualifying in 2007-08.

- **Pending Federal Budget Changes.** On or around February 1, 2006, the US House of Representatives is expected to vote on the federal fiscal year 2006 budget already approved by the Senate. This package, called the Deficit Reduction Act of 2005, would limit retroactive lump-sum SSI/SSP payments to three months’ worth of benefits, and payments for any additional retroactive benefits would be spread out over a year. This Act would also require more frequent redeterminations for SSI/SSP eligibility, which could potentially result in SSI/SSP program savings.

In-Home Supportive Services (IHSS) Program

- **Program Description.** The In-Home Supportive Services (IHSS) program funds personal care services for low-income aged, blind or disabled individuals that are at risk for institutionalization. IHSS services include domestic services (such as meal preparation and laundry), nonmedical personal care services, paramedical services, assistance while traveling to medical appointments, teaching and demonstration directed at reducing the need for support, and other assistance. Services are provided through individual providers hired by the consumer, county contracts with service providers, or through welfare staff. County welfare departments visit consumers in their homes to determine authorized hours of service.

- **Enrollment Summary.** The budget estimates that IHSS caseload will increase to 396,000 in 2006-07, an increase of 6.4 percent over 2005-06 caseload. Approximately half of IHSS consumers are age 65 and older. Persons with developmental disabilities constitute more than 12 percent of the IHSS caseload. Caseload, hours of service by case, and program costs have grown significantly faster than population growth since the mid-1990s.
- **Funding Summary.** The budget proposes \$4 billion (\$1.3 billion General Fund) for the IHSS program in 2006-07. This represents an increase of \$167 million (\$51.9 million General Fund) above the current year funding level, primarily due to caseload growth.

IHSS costs have steadily increased in recent years, despite \$230 million in General Fund savings from the IHSS federal Independence Plus waiver. Nonetheless, the average annual cost per individual, approximately \$9,999 (\$3,309 General Fund), is still less than one-fifth the cost of nursing home placement. The program's growth has been fueled by multiple factors, including the establishment of a state entitlement for personal care services, population increases, and an increase in the proportion of IHSS consumers who are severely disabled, greater utilization of service hours by case, and higher provider rates. In addition, demographic trends and a programmatic shift to support the elderly and persons with disabilities in community settings have increased the number of beneficiaries.

Wage increases have reportedly contributed to enrollment growth and increases in the numbers of hours used, as higher wages have made it easier for beneficiaries to hire providers and fully utilize authorized hours of care. This is in addition to the direct impact of provider wage increases on IHSS costs. The state has participated in IHSS provider wages above the minimum wage since 1999-2000. In the current year, the state participates in wages and benefits up to \$11.10 per hour, although actual wage rates vary by county. Most wage rates are determined by the board of supervisors and public authority that negotiates a contract with providers.

IHSS Highlights

- **Continue Share of Cost Buyout.** The budget includes \$24 million General Fund in 2006-07 to apply Medi-Cal share of cost rules to IHSS consumers. Under the federal IHSS Plus waiver adopted in 2004-05, IHSS consumers must have a Medi-Cal eligibility determination, which in some case results in a higher share of cost to be funded by the state. The budget reflects \$31 million General Fund for current year costs associated with the share of cost buyout as well as funding to cover the Medi-Cal spenddown for IHSS consumers. DSS is funding IHSS consumers' SSI/SSP share of cost (spenddown) to ensure consumers will remain Medi-Cal eligible until automation system changes are completed in May 2006.
- **Increase Quality Assurance Savings.** The 2004-05 Budget Act established an IHSS Quality Assurance program to make county determinations of service hours consistent throughout the state. Quality Assurance includes: 1) quality assurance functions in each county, 2) state resources for monitoring and supporting county activities, 3) standardized assessment training for county IHSS workers, and 4) periodic written notices to providers that remind them of their legal obligations to submit accurate timesheets. The budget reflects

\$431 million (\$140.1 million General Fund) savings in 2006-07 due to reduced provider payments under this initiative. This savings estimate reflects phased-in implementation as county workers who have completed the training assess new cases or complete reassessments. When fully implemented, the DSS estimates that Quality Assurance will ultimately result in program savings of 13 percent. The Governor's Budget reflects savings of 11 percent due to ramp up time needed for quality assurance. The budget also includes \$32.6 million (\$11.7 million General Fund) for county staffing costs associated with the Quality Assurance Initiative.

- **Continue Quality Assurance State Staffing.** The budget requests \$1.6 million (\$788,000 General Fund) for a two-year extension of 16 expiring limited-term positions for the IHSS Quality Assurance Initiative. The DSS received 18 two-year limited-term positions for Quality Assurance implementation in 2004-05, and now indicates that continuation of 16 positions is necessary to continue implementation and provide ongoing county support and monitoring.
- **Continue Independence Plus Waiver Staffing.** The budget requests \$422,000 (\$211,000 General Fund) for a two-year extension of 5 expiring limited-term positions to support the IHSS federal Independence Plus Medicaid Waiver. As noted above, this waiver results in an estimated \$230 million General Fund savings in 2006-07. The DSS received 6 two-year limited-term positions for the waiver in 2004-05, and now indicates that continuation of 5 positions is necessary for ongoing development and support of the waiver.

Children and Family Services Programs

- **Program Descriptions, Caseload, and Funding.** The state administers a continuum of programs and services designed to protect children from abuse, neglect, and exploitation, strengthen families, deliver services to children in out-of-home care, and support the adoption of children. These programs are operated by county welfare departments.

The budget provides \$4.8 billion (\$1.5 billion General Fund) to support children and family services programs. Federal funding for these programs is provided by Social Security Act Titles IV-B, IV-E, XIX, and XX funding, as well as Temporary Assistance for Needy Families (TANF) funds. Title IV-E, the largest funding stream, provides an open-ended entitlement for many children in foster care, adoption, and child welfare programs. Title IV-E funding is limited to children whose families meet the 1996 Aid to Families with Dependent Children (AFDC) income limits. Only a portion of California's foster care, adoptions, and child welfare cases meet these income limits and qualify for matching federal IV-E funding. Counties must determine which cases qualify for IV-E funding under various circumstances, and submit their claims for state and federal review.

- ✓ **Child Welfare Services (CWS).** This program encompasses a variety of services designed to protect children from abuse, neglect and exploitation. Services include Emergency Assistance, Family Maintenance, Family Reunification, and Permanent Placement. Combined average monthly caseload for these programs is estimated to decline by 1.5 percent in the budget year, primarily due to a decline in Permanent

Placement caseload. Total funding for CWS increased by 1.8 percent, to \$2.2 billion (\$631 million General Fund).

- ✓ **Foster Care Program.** The state's Foster Care program provides support payments for children in out-of-home care, including foster homes, foster family agencies, residential treatment for seriously emotionally disturbed children and group homes. Average monthly Foster Care caseload is estimated to decrease by 0.2 percent, to 74,900 children. Continuing the historical trends, the number of children in group homes and foster family agencies is increasing, while the number of children in foster family homes is decreasing. Total funding for Foster Care decreased by 0.2 percent, to \$1.7 billion (\$427 million General Fund).
- ✓ **Kin-GAP Program.** The Kin-GAP program provides support to children in long-term stable placements with relatives. The projected average monthly caseload is 15,500 children, reflecting an increase of 2.7 percent. The Kin-GAP program is funded with TANF and General Fund MOE funding. Total funding for Kin-GAP increased by 2 percent, to \$100 million TANF/MOE.
- ✓ **Adoptions Program.** The state's adoptions programs include the Adoptions Assistance Program (AAP) as well as other state and county efforts to improve permanency outcomes for foster children. The AAP provides subsidies to promote permanent placement of children that are older, members of sibling groups, have disabilities, or are otherwise difficult to place. Budget year AAP caseload is expected to be 75,000, an increase of 7.9 percent over current year. Total funding for AAP and other adoptions programs increased by 8.8 percent, to \$775 million (\$348 million General Fund).

Children and Family Services Highlights

- **Increase Monitoring and Fiscal Review for Title IV-E.** The budget requests \$793,000 (\$397,000 General Fund) for 9 positions to ensure that federal IV-E funding for Foster Care relative placements is being accurately claimed. As noted above, Title IV-E funding is limited to children whose families meet the 1996 ADFC income limits. Since only a portion of California's foster care, adoptions, and child welfare caseload qualifies for IV-E funding, counties must determine which cases qualify, and submit their claims for state and federal review. Inaccurate claiming has resulted in the disallowance of \$45 million in IV-E funds for 2002, \$34 million for 2003, and the potential for up to \$100 million in 2000-01.

The 9 DSS positions would also be used for compliance with the *Higgins v. Saenz* stipulated agreement and a corrective action agreement with the federal Administration for Children and Families, which require the department to demonstrate that children are placed in relative homes that meet the safety standards for approval and that these homes are properly entitled to receipt of federal funds. In spring 2006 the department will begin reviewing calendar year 2004 foster care claims for compliance with *Higgins* and the corrective action agreement.

- **Backfill Title IV-E Foster Care Disallowance with \$33.8 million General Fund.** The budget requests \$25.3 million General Fund in the current year and \$8.4 million General Fund in the budget year to backfill a \$33.8 million Title VI-E federal funding disallowance for Foster Care for calendar year 2003.

- **Backfill Title IV-E CWS Disallowance with \$58 million TANF.** The budget proposes to shift a combined total of \$58 million in current and budget year TANF funding from CalWORKs to the CWS-Emergency Assistance Program, to backfill a Title IV-E federal funding disallowance. The Emergency Assistance Program provides emergency shelter care, crisis resolution, emergency response, and case management for children at risk due to abuse, neglect, abandonment, or exploitation.
- **Continue Staffing for Title IV-E Child Welfare Waiver.** The budget requests \$805,000 (\$403,000 General Fund) to extend 4 limited-term positions for development and implementation of the Title IV-E Child Welfare Waiver Demonstration “Capped Allocation” Project (CAP). The department has been negotiating with the federal government for a number of years to develop this waiver. If approved, this waiver would allow the use of Title IV-E funds for preventive child welfare services, such as improved hotline response, more parenting education and counseling, multi-disciplinary teams, and services to more families on a voluntary basis.
- **Establish Foster Care Infant Rate.** The budget requests \$611,000 (\$156,000 General Fund) in the current year and \$1.2 million (\$313,000 General Fund) in the budget year to fund a special Foster Care rate for teen mothers who are in foster care placement with their children. This rate, established by SB 500 (Kuehl), Ch. 630/2005, provides a \$200 monthly payment above the current infant supplement for the added care and supervision provided by the foster caregiver to the teen parent and child. An estimated 408 teen mothers are in foster care placement with their children.
- **Restore Foster Care Audits Staff.** The budget requests \$577,000 (\$357,000 General Fund) and the restoration of 6 three-year limited-term positions to perform fiscal audits of non-profit corporations that operate Foster Family Agencies or group home programs. Positions to perform this audits function were eliminated in 2003-04 position reduction drills.
- **Augment Foster Care Child Relationships Program.** The budget includes a total of \$23 million (\$10 million General Fund) for the Foster Care Child Relationships Program. This program was established by AB 408 (Steinberg), Ch. 813/2003 to help ensure that older foster youth develop significant and supportive relationships prior to their emancipation. The current year funding level for this program is \$5.2 million (\$2.3 million General Fund). The additional funding included in the budget would be used to fund AB 1412 (Leno), Ch. 640/2005, which expands the number of children covered by this program, and ensures that developmentally appropriate children are involved in the development of their case plan, help plan for permanent placement, and that children 12 and older review their case plan and receive a copy. Note that the budget proposes to delay implementation of AB 1412 from January 1, 2006 to July 1, 2006.
- **Augment Transitional Housing for Foster Youth.** The budget requests an additional \$1 million General Fund to augment the Transitional Housing Placement Program (THPP), established under AB 1119 (Migden), Ch. 639/2002. This funding will allow more counties to participate in THPP, which provides housing assistance to emancipating foster youth.

- **Discontinue Dependency Drug Court Funding.** The budget does not maintain the \$2 million federal PSSF funding included in the 2005-06 Budget Act for Dependency Drug Courts. The Administration indicates that it will consider restoration of this funding upon review of an evaluation report for Dependency Drug Courts that is due to the Legislature during 2006 budget hearings.
- **Expand Kinship Support Services.** The budget requests an additional \$2.5 million General Fund to expand current county programs and allow all counties to apply for Kinship Support Services funds. This program, which was funded at \$1.5 million General Fund for eleven counties in 2005-06, provides community-based family support services to kinship (relative) caregivers and the children who are placed in their homes by the juvenile court or who are at risk of dependency or delinquency.
- **Improve Adoptions Outcomes.** The budget requests a total of \$12.2 million (\$7.1 million General Fund) to hire additional state and county adoptions caseworkers. The additional staff are expected to increase adoptions by 560 in 2006-07. The funding includes \$1.4 million (\$698,000 General Fund) for 16.5 DSS positions in the Adoptions Services Bureau, which serves a 28-county service area. The funding also includes \$10.8 million (\$6.4 million General Fund) for local assistance to reflect a 15.6 percent increase in county adoptions caseworkers, offset by minor adjustments in Foster Care and AAP costs. Note that the Governor vetoed \$229,000 (\$100,000 General Fund) for Adoptions Assistance training in 2005-06, noting that DSS intends to increase efforts in 2005-06 to provide adoptions training and technical assistance to county social workers within existing resources.
- **Maintain Funding for Previous CWS Reforms.** The budget maintains a total of \$26.6 million (\$15.5 million General Fund) to support child welfare system reforms that were established in previous years. The budget includes \$12.9 million (\$7.6 million General Fund) for the Child Welfare Outcomes and Accountability System, established by AB 636 (Steinberg), Ch. 678/2001. The budget also includes \$13.7 million (\$7.8 million General Fund) to support 11 counties using Differential Response, the California Standardized Safety Assessment System, and enhanced permanency and youth transition standards. Note that the Governor vetoed \$5.6 million (\$3.5 million General Fund) in additional funding for CWS reforms in 2005-06, noting that the “legislative augmentation exceeds the level of funding that is necessary to implement approved CWS program improvement initiatives and strategies, achieve compliance with federal performance requirements, and avoid federal penalties.”
- **Reduce Caseload Impact under *Rosales v. Thompson*.** Based on actual claims, the number of cases transferring from CalWORKs to Title IV-E Foster Care under the *Rosales v. Thompson* decision is fewer than expected. The *Rosales* decision broadened eligibility and extended federal Title IV-E Foster Care benefits to relatives caring for foster children who were previously eligible only for CalWORKs benefits at significantly lower rates. The 2005-06 Budget Act anticipated \$7 million General Fund savings as a result of cases shifting from CalWORKs to Foster Care. However, based on actual claims data, the Governor’s Budget estimates significantly fewer CalWORKs cases will shift to Foster Care, and as a result reflects no net General Fund savings. Despite the reduction in current year savings, the

reduced *Rosales* caseload lessens the impact from the federal budget proposal to reverse the *Rosales* decision (see *Issues* below).

Issues for Children and Family Services

Pending Federal Budget Changes. Shortly after it returns on January 31, 2006, the U.S. House of Representatives will vote on a budget package already approved by the Senate. This package, called the Deficit Reduction Act of 2005, contains numerous reductions to human services, including foster care and child welfare.

First, this Act would explicitly place limits on the claiming of federal administrative funds for children placed in ineligible facilities, such as those residing in unlicensed relative homes, detention centers, or hospitals. Currently, the state may receive federal reimbursement for certain administrative costs while children are in these settings. The LAO estimates that this would result in \$15-\$20 million in lost federal funds annually. Second, this Act would increase funding for child abuse prevention (Safe and Stable Families Funds) and juvenile court improvements. The LAO estimates that this would result in \$10 million in additional federal funds annually. Finally, this Act would effectively reverse the *Rosales* decision, but as noted above there may be a relatively minor negative fiscal impact to the state for this component.

Community Care Licensing

The Community Care Licensing (CCL) Division of DSS licenses over 85,000 community care facilities across the state. These facilities have the capacity to serve over 1.4 million clients requiring different types of care and supervision. Licensees include childcare facilities, certified foster family homes, foster family agencies, residential care facilities for the elderly, residential care facilities for the chronically ill, adoption agencies, transitional housing, and adult day care. Licensing activities are primarily carried out by state staff, although some counties are responsible for licensing child care and foster family homes. CCL staff currently visit a randomly selected 10 percent of facilities annually, and visit all facilities no less than once every five years. At-risk facilities are visited at least annually.

The budget includes \$107.3 million (\$25.2 million General Fund) and 1,111.9 positions for CCL in 2006-07. This represents a significant increase over the current year funding of \$100.6 million (\$18 million General Fund) and 1,033.9 positions. Approximately 15 percent of funding is for county licensing activities, and the remaining funding is for state licensing activities.

Community Care Licensing Highlights

- **Licensing Reform Proposal.** The budget requests \$6.7 million (\$6 million General Fund) and 80 new positions to complete required licensing workload and increase visits to facilities. Additional staffing is requested primarily to address a backlog of required visits, as well as to increase the number of random sample licensing visits from 10 percent to 20 percent annually. Other administrative and statutory reforms are proposed to improve the efficiency of the licensing program and increase client protections.

The 2003 Budget Act reduced the frequency of licensing visits to more effectively target CCL resources. However, that legislation also provided that if the number of citations increased by more than 10 percent in any year, the number of unannounced visits would also increase by 10 percentage points. In 2005, the department indicated that the number of citations was projected to increase by 33 percent between 2004-05 and 2005-06.

The most significant components of the CCL reform proposal include the following:

- ✓ \$250,000 to contract for an integrated licensing/certification fee collection process.
- ✓ Require individuals who have been denied licensure/employment due to failed criminal background clearance to wait a minimum of two years before reapplying.
- ✓ \$115,000 to contract out administrator certification testing and grading functions. The budget also requests statutory changes to allow administrator certification fees to be adjusted.
- ✓ 38 permanent positions to increase the number of random visits from 10 percent of facilities to 20 percent each year.
- ✓ 29 two and a half-year limited-term positions and \$110,000 for overtime to eliminate the significant backlog in licensing visits.
- ✓ 1 one-year limited-term personnel position to assist with hiring the requested licensing positions.
- ✓ 5 permanent positions to operate a training academy for new licensing staff.
- ✓ 2.5 permanent positions to share the DSS database of excluded or abusive employees with other HHS departments.
- ✓ 4.5 permanent positions to handle information regarding convictions after arrest provided by the Department of Justice.
- **Establish New Licensing Category for Agnews Closure.** The budget requests \$90,000 General Fund and 1 position to establish a new licensing category known as “Adult Residential Facility for Persons with Special Health-Care Needs.” In accordance with SB 962 (Chesbro), Ch. 558/2005, these facilities will be established to serve former residents of the Agnews Developmental Center. Intended residents include medically stable adults who are technology dependent due to reliance on medical procedures such as parenteral nutrition, dialysis, tracheostomy care, and oxygen therapy. Providing these services in a licensed community care facility versus a licensed health facility would allow for a more homelike environment.

LABOR

Crosscutting Labor Issues

Increase in the Minimum Wage. The Governor has indicated his support for legislation to increase the state's minimum wage from \$6.75 per hour to \$7.25 per hour, effective September 1, 2006, and to \$7.75 per hour effective July 1, 2007. No funding augmentations are built into 2006-07 department budgets related to this proposal; however, the Administration indicates that enactment of the legislation would increase General Fund costs by a total of \$10.3 million for the following departments:

- Department of Forestry / Department of Parks and Recreation (\$200,000)
- California Conservation Corps (\$1 million)
- Department of Aging (\$500,000)
- Department of Social Services (\$3 million)
- Department of Developmental Services (\$5.5 million)

The Administration proposes Control Section 3.65 that would allow the Director of Finance to augment the above budgets by a total of up to \$10.3 million if minimum wage legislation is enacted.

0559 Secretary for Labor and Workforce Development Agency

The Labor and Workforce Development Agency brings together the departments, boards, and commissions that train, protect, and provide benefits, such as unemployment insurance and workers' compensation, to employees and employers of California. The Labor and Workforce Development Agency includes the Department of Industrial Relations, the Employment Development Department, the Agricultural Labor Relations Board (the Agriculture Labor Relations Board is heard by Budget Subcommittee #2), and the Workforce Investment Board. The Agency provides policy and enforcement coordination of California's labor and employment programs and policy and budget direction for the departments and boards.

The Governor proposes \$2.2 million (reimbursements and special funds) and 14.2 positions for the Office of the Secretary, a decrease of \$16,000 over the revised current year budget. The Administration proposes to eliminate two part-time management positions and redirect the savings to establish a Staff Services Analyst and an Office Technician to support the work of the Deputy Secretary for Enforcement.

7100 Employment Development Department

The Employment Development Department (EDD) administers services to employers, employees, and job seekers. The EDD pays benefits to eligible workers who become unemployed or disabled, collects payroll taxes, administers the Family Leave Program, and assists job seekers by providing employment and training programs under the federal Welfare-to-Work Act of 1997 and Workforce Investment Act of 1998. In addition, the EDD collects and provides comprehensive labor market information concerning California's workforce.

The Governor proposes \$10.8 billion (\$24.7 million General Fund), a decrease of \$307 million (2.8 percent) from the revised current-year budget. The change is primarily driven by a projected decrease in benefit claims due to improved economic conditions.

| Fund Source | | | | |
|--------------------------------------|---------------------|---------------------|-------------------|-------------|
| Expenditure by Program | | | | |
| (dollars in thousands) | 2005-06 | 2006-07 | \$ Change | % Change |
| Employment & Employment Services | \$206,209 | \$210,397 | \$4,188 | 2.0 |
| Tax Collections & Benefit Payment | 10,302,676 | 10,011,740 | -290,936 | -2.8 |
| Unemployment Insurance Appeals Board | 75,478 | 74,683 | -795 | -1.1 |
| Administration | 52,892 | 54,747 | 1,855 | 3.5 |
| Distributed Administration | (51,194) | (51,194) | 0 | 0.0 |
| Employment Training Panel | 37,810 | 40,345 | 2,535 | 6.7 |
| Workforce Investment Act | 463,541 | 440,412 | -23,129 | -5.0 |
| National Emergency Grant Program | 45,000 | 45,000 | 0 | 0.0 |
| Nurse Education Initiative | 750 | 0 | -750 | -100.0 |
| Total | \$11,133,162 | \$10,826,130 | -\$307,032 | -2.8 |

Major Budget Proposals

Program Benefit Adjustments. The EDD budget reflects adjusted benefit expenditures in the current year and budget year. The adjustments are a result of recent benefit claim levels, and of the October 2005 forecast of future claims. The Department will submit a revised forecast for benefit expenditures as part of the May Revision.

- **Unemployment Insurance (UI):** Benefits are proposed to decrease by \$458.4 million in 2005-06 and decrease by \$507.7 million in 2006-07 (both relative to the 2005 Budget Act base). Additionally, operations expenditures are proposed to decrease by 142.6 personnel years and \$10.2 million in 2005-06 and decrease 122.3 personnel years and \$9.3 million in 2006-07.
- **Disability Insurance (DI) Program:** Benefits are proposed to increase by \$185.6 million in 2005-06 and decrease by \$79.7 million in 2006-07. Additionally, operations expenditures are proposed to decrease by 66.7 personnel years and \$4.3 million in 2005-06 and decrease 23.9 personnel years and \$1.5 million in 2006-07.
- **School Employees Fund Program:** Benefits are proposed to decrease by \$35 million in 2005-06 and decrease by \$41.4 million in 2006-07. No staffing changes are requested in either year.

- **Workforce Investment Act (WIA) Program:** WIA expenditures are proposed to increase by \$17.8 million in 2005-06 and remain unchanged in 2006-07.

In April, of both 2004 and 2005, the Unemployment Insurance (UI) Fund exhausted its fund balance and a short-term federal loan was obtained. The loans were repaid within a few months and no interest was charged. The current benefit forecast suggests no loans will be required in 2005-06 or 2006-07. In the *Analysis of the 2004-05 Budget Bill*, the Legislative Analyst's Office suggested there is a long-term solvency problem for the UI Fund absent corrective action. The Administration has not submitted a proposal to deal with long-term UI Fund solvency. While improved economic conditions have resulted in sufficient fund balances for the short run, the fund will likely become insolvent when unemployment rises during the next recession.

Automated Collection Enhancement System Implementation. The Governor proposes an augmentation of \$3.1 million (\$2.7 million General Fund) and 15 positions to fund the second year of an eight-year information technology project that is estimated to cost a total of \$93.4 million. The Administration proposes to submit annual budget change proposals for project funding. The Administration indicates the system would provide an integrated and automated solution that will use state-of-the-art employer tax collection, storage, account management, and data retrieval technologies to maximize the efficiency and effectiveness of the Department's tax collection operations. The new system is estimated to generate a total of \$583.4 million in additional revenue over a ten-year period by better detecting non-filers and non-compliant employers.

Disability Insurance Automation Project. The Governor proposes an augmentation of \$1.8 million (special funds) and 6.7 positions to fund the first year of a four-year information technology project that is estimated to cost a total of \$28.9 million. The Administration proposes to submit annual budget change proposals for project funding. The Administration indicates the system would provide greater access to services for claimants, medical providers, and employers.

Augmentation of State Funds to Replace Federal Funds. The Governor proposes to augment the Employment Development Department with state funds to replace expiring federal funds:

- An augmentation of \$2.8 million (EDD Contingent Fund) is requested to maintain existing staffing in the One-Stop Career Centers. These funds would replace a federal Wagner-Peyser Reemployment Services Grant that expires in June 2006.
- An augmentation of \$1.5 million (EDD Contingent Fund) is requested to maintain existing staff for the Veterans Employment and Training Services program. These funds would backfill for reduced federal grants.
- An augmentation of \$2.6 million (EDD Contingent Fund) is requested to maintain existing staffing for identity verification activities in the Unemployment Insurance Program. The federal Department of Labor is no longer providing supplemental funds for this activity.

Employment Training Panel. The proposed budget continues the practice of transferring Employment Training Panel (ETP) funds to the Department of Social Services for CalWORKs employment training programs to backfill for General Fund reductions; however, the transferred amount is proposed to be reduced by \$5 million. The additional \$5 million available to ETP

would enable the Panel to approve approximately 23 additional contracts to serve 300 employers, training 5,000 workers.

7120 California Workforce Investment Board

The federal Workforce Investment Act of 1998 established new requirements for employment and training programs for adults, youth, and dislocated workers, and resulted in the creation of the state Workforce Investment Board. The Board is tasked with developing workforce development programs into an integrated workforce investment system that can better respond to the employment, training, and education needs of its customers.

The Governor proposes \$4.8 million (federal funds and reimbursements) and 20.9 positions for the Board's budget – a decrease of \$392,000. The reduction is due to baseline reductions - the Administration did not submit Budget Change Proposals for this item.

7350 Department of Industrial Relations

The objective of the Department of Industrial Relations (DIR) is to protect the workforce in California; improve working conditions; and advance opportunities for profitable employment. The department enforces workers' compensation insurance laws and adjudicates workers' compensation insurance claims; works to prevent industrial injuries and deaths; promulgates and enforces laws relating to wages, hours, and conditions of employment; promotes apprenticeship and other on-the-job training; assists in negotiations with parties in dispute when a work stoppage is threatened; and analyzes and disseminates statistics which measure the condition of labor in the state.

The Governor proposes \$346.8 million (\$62.6 million General Fund), an increase of \$2.7 million (0.8 percent) from the current-year budget.

| Expenditures by Program (dollars in thousands) | 2005-06 | 2006-07 | \$ Change | % Change |
|--------------------------------------------------------------|------------------|------------------|----------------|------------|
| Self-Insurance Plans | \$3,578 | \$3,591 | \$13 | 0.4 |
| Mediation/Conciliation | 2,214 | 2,237 | 23 | 1.0 |
| Workers' Compensation | 154,398 | 157,726 | 3,328 | 2.2 |
| Commission on Health and Safety and Workers' Compensation | 3,133 | 3,068 | -65 | -2.1 |
| Division of Occupational Safety and Health | 85,423 | 87,466 | 2,043 | 2.4 |
| Division of Labor Standards Enforcement | 46,322 | 44,854 | -1,468 | -3.2 |
| Division of Apprenticeship Standards | 9,973 | 10,156 | 183 | 1.8 |
| Division of Labor Statistics and Research | 3,853 | 3,884 | 31 | 0.8 |
| Claims, Wages, and Contingencies | 35,158 | 33,832 | -1,326 | -3.8 |
| Administration | 26,729 | 26,993 | 264 | 1.0 |
| Distributed Administration | (26,729) | (26,993) | -264 | 0.0 |
| Total | \$344,052 | \$346,814 | \$2,762 | 0.8 |

Major Budget Proposals

Establish Collections Unit within the Division of Labor Standards Enforcement. The Governor proposes to augment the Department's budget by \$561,000 (special fund) and five positions to establish a collections unit within the Division of Labor Standards Enforcement to actively pursue the wages and penalties it determines are due as a result of judgments against employers who have violated labor laws. The Administration indicates this new unit would generate enough funding to be self-sufficient.

Workers' Compensation Reform. The Governor proposes four budget changes that relate to recently-enacted workers' compensation legislation.

- **Return-to-Work Program Staffing and Funding.** The Governor requests \$577,000 and one position to fund payments to small employers who comply with the requirements of the Return-to-Work Program. The program was placed in statute by AB 749 (Chapter 6, Statutes of 2002) and modified by SB 899 (Chapter 34, Statutes of 2004).
- **Extension of Limited-term Legal Positions.** The Governor requests a two-year extension of \$297,000 and four legal positions to support ongoing regulatory activities related to workers' compensation reform. The Administration indicates this workload is associated with SB 899 (Chapter 34, Statutes of 2004).
- **Repeal of \$100 Initial Lien Filing Fee.** The Governor requests the repeal of Labor Code Section 4903.05 (added by SB 228, Chapter 639, Statutes of 2003) that requires medical-legal providers to pay a \$100 filing fee when filing an initial lien on a claim in order to assert their claim for payment for services provided. The Administration indicates this requirement "has created a workload that does not positively impact the settling of claims and instead has created a process that is inefficient for the division and the district offices."
- **Position Upgrade.** The Governor request \$971,000 to fund upgrades for positions in the Workers' Compensation Unit. The Department indicates the complexity of the workload has increased with recent legislation and this merits the upgrade. Proposed provisional language would tie expenditure of these funds to approval of the upgrade by the Department of Personnel Administration and/or the State Personnel Board.

District Offices. The Governor proposes two budget changes that relate to district offices.

- **Increased Facilities Costs.** The Governor requests an augmentation of two positions and \$2.2 million for unfunded facilities cost increases due to increased baseline staffing. The Department indicates it maintains 24 district offices throughout the state and 8 satellite offices.
- **Security.** The Governor requests \$280,000 to install security barriers at the Van Nuys and Los Angeles district offices and to provide California Highway Patrol security coverage at these two offices.

Pressure Vessel Safety Program. The Governor requests an augmentation of \$1 million and eight positions to address on-going workload in the Pressure Vessels Unit. These positions would address workload associated with Labor Code Section 7680 that requires that tanks and boilers have permits to operate. Revenue generated from inspection fees would fund these positions.

VETERANS AFFAIRS

8950 Department of Veterans Affairs

The Department of Veterans Affairs has three primary objectives: (1) provide comprehensive assistance to veterans and dependents of veterans in obtaining benefits and rights to which they may be entitled under state and federal laws; (2) afford California veterans the opportunity to become homeowners through loans available to them under the Cal-Vet farm and home loan program; and (3) provide support for California veterans' homes where eligible veterans may live in a retirement community and where nursing care and hospitalization are provided. The department operates veterans' homes in Yountville (Napa County), Barstow (San Bernardino County), and Chula Vista (San Diego County). The homes provide medical care, rehabilitation, and residential home services. With \$50 million in general obligation bonds available through Proposition 16 (2000), \$162 million in lease-revenue bonds (most recently amended by AB 1077 [Chapter 824, Statutes of 2004], and federal funds, new homes will be constructed in West Los Angeles, Lancaster, Saticoy, Fresno, and Redding.

The Governor's budget funds 1,608.6 positions (including 139.1 new positions) and budget expenditures as follows:

| Summary of Expenditures | | | | |
|-------------------------------------------------|------------------|------------------|-----------------|------------|
| (dollars in thousands) | 2005-06 | 2006-07 | \$ Change | % Change |
| Fund Source | | | | |
| General Fund | \$68,767 | \$78,942 | \$10,175 | 14.8 |
| Veterans' Farm and Homebuilding Fund of 1943 | 183,966 | 184,031 | 65 | 0.0 |
| Federal Trust Fund | 21,874 | 22,567 | 693 | 3.2 |
| Reimbursements | 28,342 | 28,152 | -190 | -0.7 |
| Other Funds | 897 | 976 | 79 | 8.8 |
| Total, Fund Source | \$303,846 | \$314,668 | \$10,822 | 3.6 |

Highlights

Funding for Veterans Homes. The Governor proposes a 19 percent funding increase for the three Veterans Homes, from \$58.5 million in the current year to \$69.6 million in the budget year.

| Home | Funding 2005-06* | Proposed Funding 2006-07* |
|---------------|---------------------|---------------------------------|
| Yountville | \$38,926 | \$44,740 |
| Barstow | 8,401 | 11,125 |
| Chula Vista | 11,164 | 13,745 |
| TOTALS | \$58,491 | \$69,610 |

(*dollars in thousands)

Major Budget Proposals

Veterans Home Fund Construction Team. The budget proposes to renew two positions for three additional years, at a cost of \$211,000 General Fund per year. These positions were established for the purpose of supporting the Veterans Home Development Program through grants management, design development, construction management, and community relations.

Yountville Infrastructure Planning Study. The Governor's budget proposes a \$500,000 General Fund appropriation to fund an infrastructure study for the Yountville Veterans Home. This study would assess and prioritize material deficiencies in the 105 year-old home.

Yountville Recreation Building Renovation. The budget proposes \$8.3 million General Fund to renovate the recreation building at the Yountville Veterans Home. This project will include measures to improve functionality of the existing facilities, abate hazardous materials, and conform to seismic and fire codes. Based on the schedule provided, it is unclear that the full \$8.3 million will be needed in the budget year.

Salary Savings Exemption. The Governor's Budget includes \$1.7 million General Fund and 27.8 positions for the costs of exempting nurses and other 24-hour care staff at the Veterans Homes from the salary savings requirement. The Administration asserts that such exemptions would be consistent with existing practice for other 24-hour care state facilities. This proposal would not result in actual nurses being hired, but rather a reduction to the current salary savings rate used for the Yountville Home. This BCP seeks a lower rate in order to recognize overtime commitments that reduce available funding. The Legislature will carefully consider this request for exemption from statewide salary savings practice and the differential cost between funding overtime hours and hiring additional staff.

Yountville Alzheimer's/Dementia Unit and Nursing Ward Backfill. The Governor's budget proposes \$3.8 million (\$3.4 million General Fund) and 75.7 positions to operate the new Yountville Alzheimer's/Dementia Unit. This newly constructed facility will ultimately serve 75 patients and was specifically designed to address the unique needs of Alzheimer's and dementia

patients. The Yountville Veterans Home plans to open this facility to serve 40 patients on July 1, and the remaining patients on January 1, 2007. A corresponding augmentation of \$1.3 million (\$371,000 General Fund) and 33.5 positions will staff and backfill two nursing wards with other patients after the existing Alzheimer's/Dementia Unit is vacated. Given this delicate sequencing of opening facilities, moving staff, and filling positions, the Legislature will want to closely examine the proposed schedule and associated funding.

Barstow Immediate Care Facility – Restoration of 20 Beds. The Governor's budget proposes \$1.3 million (including \$906,000 General Fund) and 10.6 positions to restore 20 beds that were voluntarily shutdown in 2003 after a series of incidents involving mistreatment of residents at the Barstow facility. The Department of Health services restored the Barstow Veterans Home authority to begin reopening a skilled nursing facility in April 2005. Given recent history and the sensitivity of care for veterans, the Legislature will closely examine the Barstow Veterans Homes' readiness for restoring beds.

Combat-Related Treatment Programs. The budget includes \$1 million General Fund and 11 positions for a new program to establish a baseline behavior wellness program at each Veterans Home. This program will treat veterans with post traumatic stress disorder, among other psychiatric problems. Treatment strategies will include psychiatry, psychology, and substance abuse treatment.